

AUDITING PROCEDURES REPORT

Issued under P.A.. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Sault Ste. Marie	County Chippewa
Audit Date June 30, 2004	Opinion Date November 19, 2004	Date Accountant Report Submitted to State: December 21, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the **Governmental Accounting Standards Board (GASB)** and the Uniform **Reporting Format** for Financial Statements for Counties and Local **Units of** Government in Michigan by the Michigan Department of Treasury.

We affirm that:

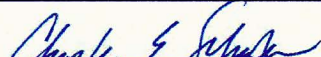
1. We have complied with the *Bulletin for the Audits of Local Units of Government* in Michigan as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☒ yes ☐ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A.. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A.. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) Rehmann Robson		Charles E. Schafer, CPA	
Street Address 902 S. Huron St., PO Box 250	City Cheboygan	State MI	ZIP 49721
Accountant Signature 			

CITY OF SAULT STE. MARIE

CHIPPEWA COUNTY



FINANCIAL STATEMENTS

JUNE 30, 2004

CITY OF SAULT STE. MARIE

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INDEPENDENT AUDITORS' REPORT

November 19, 2004

Honorable Mayor and Members
of the City Commission
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Sault Ste. Marie**, (the "City"), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-XIII is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***City of Sault Ste. Marie's*** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Also, the supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The additional information is presented for additional analysis and is not a required part of the basic financial statements and accordingly, we express no opinion on it.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

This section of City of Sault Ste. Marie's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the Transmittal Letter that accompanies this report and the City's financial statements, which follow this section.

Financial Highlights

- The City's total net assets at June 30, 2004 were \$63,281,385 consisting of \$46,561,155 in net assets of our governmental activities and \$16,720,230 of our business-type activities.
- During the fiscal year, we completed 6.83 miles of street reconstruction and associated storm sewers, sidewalks, traffic signals and bike paths with a combined value of approximately \$3,302,000.
- Construction of CSO Phase D which started in the spring of 2003 continued. This project, funded by \$9,995,000 of bonds, \$6,520,000 of which are low interest State loan instruments, will be substantially completed by the end of the 2004 construction season.
- A new Dial-A-Ride bus, maintenance and computer equipment were obtained with \$64,227 of grant funds.
- The City also received \$99,778 in Project Zero funding for the Dial-A-Ride system.
- Two large projects are to be funded by the Michigan Strategic Fund. The City accepted a \$1,600,350 grant to be used for construction of a parking deck between Ashmun Street and War Memorial Hospital.
- In addition, a \$630,000 CDBG grant and a \$395,000 CDBG loan are being used to extend Meridian Road through the airport property and to build hangars and taxi lanes. These projects should also be completed before the end of the 2004 construction season.
- Homeland Security funding was used to purchase \$74,563 worth of 800 mhz radios and security cameras.
- \$100,000 was used for skate park equipment with \$50,000 coming from the Seal Recreation Trust and \$50,000 from the Sault Tribe's Greektown Casino.
- In non-grant related items, the City completed the Seal Memorial for \$51,000, installed air conditioning in City Hall for approximately \$144,000, installed an electronic sign on the Ashmun Street Bridge for \$34,656 and reroofed the Fire Hall for \$39,730.
- The City is being hurt by problems with three major General Fund revenue components. Property tax growth remains slow, State Shared Revenue continues to decline and record low interest rates have dramatically reduced unrestricted interest earnings.
- On the expense side, the cost of providing medical insurance has increased nearly 84% between fiscal 2001 and fiscal 2004.
- The City has hired a consultant to help control the escalating costs, plans to impose changes in medical insurance benefits to non-union employees and is negotiating similar changes with union groups.
- Taxable value increased from \$230,746,348 to \$235,109,881 between fiscal 2003 and fiscal 2004.
- Total millage increased from 20.6039 to 20.7800 with operating millage and Library millage remaining unchanged at 16.8139 and .8000, respectively. Police/Fire Pension millage increased to 2.7461 and Solid Waste millage decreased to .4200.
- 2003-04 revenue sharing was budgeted at \$1,912,350, actual receipts were \$1,768,803.

Revenue Sharing Comparisons

2003-04	\$1,768,805
2002-03	1,968,064
2001-02	2,068,810
2000-01	2,121,096

General Fund Interest Comparisons

2003-04	\$ 70,263
2002-03	118,396
2001-02	143,218
2000-01	361,440

Similar interest losses have also occurred in other funds.

- Because of debt service requirements, increasing energy costs and steadily declining consumption, water and sewer rates increased approximately 2.5%.
- Our average household is assumed to use 700 cubic feet of water per month. In fiscal 2004 the combined water and sewer bill, at this consumption rate, went from \$63.38 to \$64.99.

Overview of the Financial Statements

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, combining statements for nonmajor governmental funds, nonmajor enterprise funds and internal service funds and an optional section that presents additional information. The basic financial statements include two kinds of statements that present different views of the City.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements.
 - The government funds statements tell how general government services, like public safety were financed in the short-term as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as the water and sewer system.
 - Fiduciary fund statements provide information about the financial relationships, like the retirement plan for the City employees, in which the City acts solely as a trustee or agent for the benefit of others to whom the sources belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. We have also included a section with the combining statements that provide details about our nonmajor governmental funds, nonmajor enterprise funds, internal service funds and the agency fund.

The table below summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of the Management's Discussion and Analysis explains the structure and contents of each of the statements.

Major Features of City of Sault Ste. Marie's Government-wide and Fund Financial Statements

Government-wide Financial Statements

Scope – Entire City government (except fiduciary funds) and the City's component units.

Required financial statements –

- 1) Statement of net assets
- 2) Statement of activities

Accounting basis and measurement focus – Accrual accounting and economic resources focus.

Type of asset/liability information – All assets and liabilities, both financial and capital, and short-term and long-term.

Type of inflow/outflow information – All revenues and expenses during the year, regardless of when cash is received or paid.

Governmental Funds

Scope – The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks.

Required financial statements –

- 1) Balance sheet
- 2) Statement of revenues, expenditures, and changes in fund balances

Accounting basis and measurement focus – Modified accrual accounting and current financial resources focus.

Type of asset/liability information – Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included.

Type of inflow/outflow information – Revenues for which cash is received during or soon after the end of the year expenditures when goods or services have been received and payment is due during the year or soon thereafter.

Proprietary Funds

Scope – Activities the City operates similar to private businesses; the water and sewer system, and the parking facilities.

Required financial statements –

- 1) Statement of net assets
- 2) Statement of revenues, expenses, and changes in net assets
- 3) Statement of cash flows

Accounting basis and measurement focus – Accrual accounting and economic resources focus.

Type of asset/liability information – All assets and liabilities, both financial and capital, and short-term and long-term.

Type of inflow/outflow information – All revenues and expenses during year, regardless of when cash is received or paid.

Fiduciary Funds

Scope – Instances in which the City is the trustee or agent for someone else's resources, such as the retirement plan for the City employees.

Required financial statements –

- 1) Statement of fiduciary net assets
- 2) Statement of changes in fiduciary net assets

Accounting basis and measurement focus – Accrual accounting and economic resources focus.

Type of asset/liability information – All assets and liabilities, both short-term and long-term; the City's funds do not currently contain capital assets, although they can.

Type of inflow/outflow information – All revenues and expenses during the year, regardless of when cash is received or paid.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets include all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets (the difference between the City's assets and liabilities) is one way to measure the City's financial health, or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the City you need to consider additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's streets.

The government-wide financial statements of the City are divided into three categories.

1. Governmental activities - Most of the City's basic services are included here, such as the police, fire, public works, parks department, and general administration. Property taxes, charges for services, and state and federal grants finance most of these activities.
2. Business-type activities - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system and parking facilities are included here.
3. Component units - The City includes four other entities in its report - the City of Sault Ste. Marie EDC, the City of Sault Ste. Marie DDA, Bayliss Public Library, and TIFA III. Although legally separate, these "component units" are important because the City is financially accountable for them.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Commission establishes other funds to control and manage money for particular purposes (like the Seal Trust) or to show that it is properly using certain taxes and grants (like federal aid from the U. S. Department of Housing and Urban Development).

The City has three kinds of funds:

- Governmental funds - Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or difference) between them.
- Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information.
 - In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

- We use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities, such as the City's Data Processing Fund.
- Fiduciary funds - The City is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

Financial Analysis of the City as a Whole

Net assets. The City's combined net assets increased by approximately \$625,000 which resulted from an increase of approximately \$1.2 million from current year activities and a decrease of approximately \$600,000 resulting from prior period adjustments (footnote 4D, page 49).

Table A-1
City's Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Assets						
Current and other assets	\$ 21,987,335	\$14,775,274	\$ 8,879,735	\$13,023,078	\$30,867,070	\$27,798,352
Capital assets	<u>36,035,001</u>	<u>33,744,298</u>	<u>39,616,151</u>	<u>37,188,069</u>	<u>75,651,152</u>	<u>70,932,367</u>
Total assets	<u>58,022,336</u>	<u>48,519,572</u>	<u>48,495,886</u>	<u>50,211,147</u>	<u>106,518,222</u>	<u>98,730,719</u>
Liabilities						
Current and other liabilities	7,138,057	2,861,643	685,797	2,010,626	7,823,854	4,872,269
Long-term debt, outstanding	<u>4,323,124</u>	<u>3,654,184</u>	<u>31,089,859</u>	<u>27,547,709</u>	<u>35,412,983</u>	<u>31,201,893</u>
Total liabilities	<u>11,461,181</u>	<u>6,515,827</u>	<u>31,775,656</u>	<u>29,558,335</u>	<u>43,236,837</u>	<u>36,074,162</u>
Net assets						
Invested in capital assets, net of related debt	31,976,782	29,518,224	8,587,802	8,352,617	40,564,584	37,870,841
Restricted	2,435,831	2,743,214	-	6,488,107	2,243,831	9,231,321
Unrestricted	<u>12,148,542</u>	<u>9,742,307</u>	<u>8,132,428</u>	<u>5,812,088</u>	<u>20,280,970</u>	<u>15,554,395</u>
Total net assets	<u>\$ 46,561,155</u>	<u>\$42,003,745</u>	<u>\$16,720,230</u>	<u>\$20,652,812</u>	<u>\$ 63,281,385</u>	<u>\$62,656,557</u>

Net assets of the City's governmental activities increased 10.9 percent to \$46.5 million. However, 74 percent of these assets are restricted as to the purpose they can be used for or are invested in capital assets (buildings, roads, bridges, and so on). Consequently, unrestricted net assets showed a \$12,148,542 balance at the end of this year.

The City did not include in past annual budgets the full amounts needed to finance future liabilities arising from property and casualty claims and to pay for unused employee vacation and sick days. The City will include these amounts in future years' budgets as they come due.

Figures A-3 and A-4 show functional revenues and expenses of City of Sault Ste. Marie. Table A-2 and the narrative that follows consider the operation of the governmental and business-type activities separately.

Figure A-3
City of Sault Ste. Marie
Functional Revenue

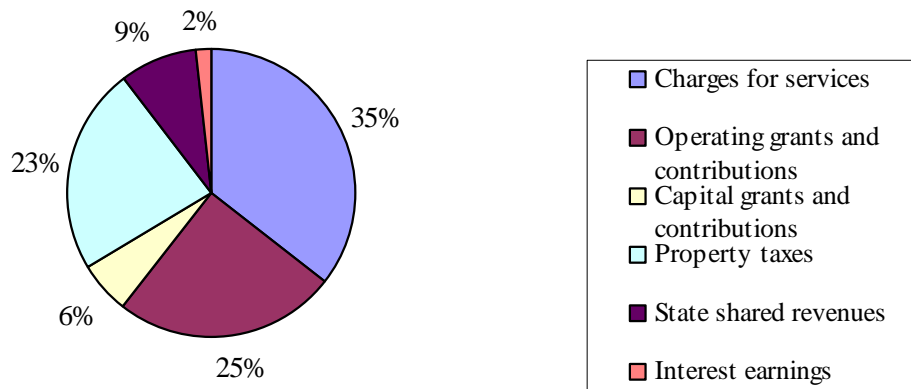
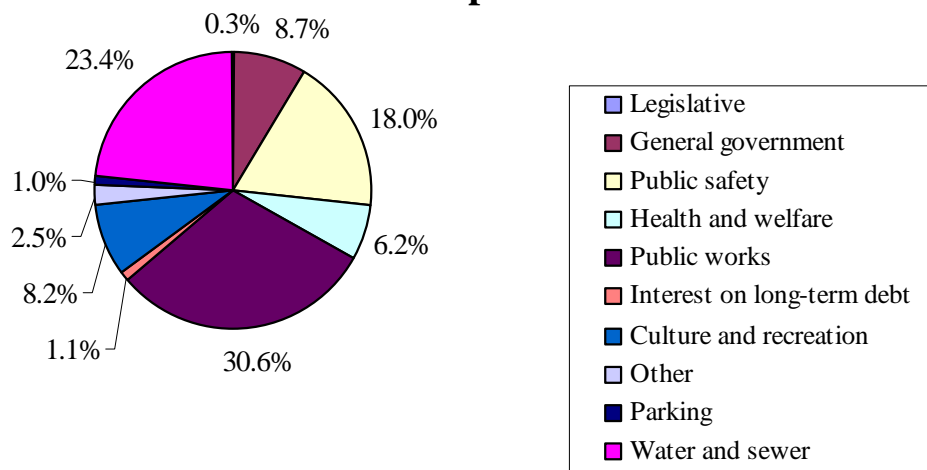


Figure A-4
City of Sault Ste. Marie
Functional Expenses



Governmental Activities

Because of continuing revenue problems and the rapid escalation of health care costs, the City has used a combination of hiring freezes and early retirement incentives to reduce the work force by 15 positions. All employees taking advantage of the incentives were required to retire in September and October of 2004.

Table A-2
Changes in the City of Sault Ste. Marie's Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenues						
Program revenues						
Charges for services	\$ 2,090,401	\$ 3,027,195	\$5,340,207	\$ 5,518,326	\$ 7,430,608	\$ 8,545,521
Operating grants	3,544,035	1,520,227	1,748,801	-	5,292,836	1,520,227
Capital grants	1,230,051	1,070,046	-	-	1,230,051	1,070,046
General revenues						
Property taxes	4,861,097	5,104,745	-	-	4,861,097	5,104,745
State shared revenue	1,785,290	1,968,064	-	-	1,785,290	1,968,064
Interest earnings	295,793	411,791	80,762	119,745	376,555	531,536
Other	-	2,041,060	-	-	-	2,041,060
Total revenues	<u>13,806,667</u>	<u>15,143,128</u>	<u>7,169,770</u>	<u>5,638,071</u>	<u>20,976,437</u>	<u>20,781,199</u>
Expenses						
Legislative	51,044	56,200	-	-	51,044	56,200
General government	1,712,962	1,689,063	-	-	1,712,962	1,689,063
Public safety	3,562,657	3,472,235	-	-	3,562,657	3,472,235
Public works	6,041,048	4,877,085	-	-	6,041,048	4,877,085
Health and welfare	1,217,091	1,419,020	-	-	1,217,091	1,419,020
Culture and recreation	1,618,671	1,108,538	-	-	1,618,671	1,108,538
Depreciation unallocated	-	212,686	-	-	-	212,686
Other expenses	498,313	1,544,416	-	-	498,313	1,544,416
Interest on long-term debt	213,325	242,374	-	-	213,325	242,374
Water and sewer	-	-	4,628,877	4,309,216	4,628,877	4,309,216
Parking facilities	-	-	203,170	150,664	203,170	150,664
Total expenses	<u>14,915,111</u>	<u>14,621,617</u>	<u>4,832,047</u>	<u>4,459,880</u>	<u>19,747,158</u>	<u>19,081,497</u>
Increase (decrease) in net assets before transfers	(1,108,444)	521,511	2,337,723	1,178,191	1,229,279	1,699,702
Transfers	(54,172)	(106,790)	54,172	597,792	-	491,002
Prior period adjustments	<u>5,720,026</u>	<u>-</u>	<u>(6,324,477)</u>	<u>-</u>	<u>(604,451)</u>	<u>-</u>
Net assets – end of year	<u>\$ 4,557,410</u>	<u>\$ 414,721</u>	<u>\$(3,932,582)</u>	<u>\$ 1,775,983</u>	<u>\$ 624,828</u>	<u>\$ 2,190,704</u>

Table A-3 presents the cost of the City's five largest programs - general government, public safety, public works, health and welfare, and recreation and culture, as well as each program's net cost (total costs less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden which was placed on the City's taxpayers by each of these functions.

- The cost of all governmental activities was \$14,911,922.
- However, the amount that our taxpayers paid for these activities through City taxes was only \$4,861,097.
- Some of the cost were paid by:
 - Those who directly benefited from the programs (\$1,930,572)
 - Other governments and organizations subsidized certain programs with grants and contributions (\$3,701,267)
- The City paid for the \$8,050,032 "Public Benefit" portion with \$4,861,097 in taxes and with other revenues such as interest and unrestricted State Revenue Sharing of \$1,785,290.

Table A-3
Net Cost of City of Sault Ste. Marie's Five Largest Governmental Activities

	Total Cost Activities		Net Cost of Services	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
General government	\$ 1,712,962	\$ 1,689,063	\$ 792,135	\$ 1,382,274
Public safety	3,562,657	3,472,235	2,915,672	2,854,157
Public works	6,041,048	4,877,085	3,076,149	1,675,204
Health and welfare	1,217,091	1,419,020	152,425	372,464
Recreation and culture	<u>1,618,671</u>	<u>1,108,538</u>	<u>354,836</u>	<u>664,374</u>
Total	<u>\$ 14,152,429</u>	<u>\$ 12,565,941</u>	<u>\$ 7,291,217</u>	<u>\$ 6,948,473</u>

Business-type Activities

Revenues of the City's business-type activities decreased slightly from the prior fiscal year. Water and sewer billings increased \$50,047 or 1%. Interest earnings declined nearly \$23,000. Rates were increased to address the increased debt service requirements imposed by the sale of the three CSO D bond issues.

In the Parking Fund, operating revenue was down \$36,600 over all categories. Permit revenue decreased nearly \$21,400, but exceeded budget. Last fiscal year included revenue from sales which would normally occur in May or June. Fines and meter receipts dropped approximately \$15,100. This appears to be a result of courtesy tickets, and a full season of free parking on major downtown streets.

Financial Analysis of the City's Funds

City-wide revenue reflecting a \$252,000 shortfall in taxes, interest and state revenue sharing and the potential \$500,000 Little Italy grant, was \$814,000 under budget.

At the same time, expenses were \$1,306,300 under budget. \$832,400 of this favorable balance represents budgeted capital outlay which did not occur before June 30. Many departments came in 3% to 5% below budget. An adjustment reclassifying the current accrual for accumulated vacation and sick leave produced \$99,200 of the favorable variance.

As the City completed the year, the General Fund's fund balance increased \$68,291. This compares favorably to an anticipated \$424,120 decrease.

The Major Street Fund's fund balance increased \$83,071 compared to a budgeted decrease of \$261,309.

The Local Street fund balance increased \$314,435 compared to a budgeted decrease of \$139,485.

The Major and Local Street funds favorable budget variances were due, mainly, to open capital outlay items.

General Fund Budgetary Highlights

Over the course of the year, the City Commission revised the City budget several times. These budget amendments fall into five major categories:

- 1) Changes reflecting clerical, police patrol and police records contract settlements as well as increases in non-union pay. These amounts, approximately \$101,350, were not reflected in the fiscal 2004 budget adopted in May 2003.
- 2) Changes in the Dial-A-Ride funding from the State increased both revenue and expenses by \$133,345. This reflects funding for a new bus and Project Zero.
- 3) Changes in capital projects reflecting a \$30,000 matching grant and a \$60,000 Ashmun Bay Park design project.
- 4) Changes reflecting \$74,853 in Homeland Security funding for purchase of 800 mhz radios and security cameras.
- 5) Changes in the Kemp Marina reflecting an anticipated \$61,750 shortfall in the budget, mostly as a result of dramatic increases in fuel costs and required electrical repairs.

Actual expenditures and transfers were approximately \$1,243,000 under budget. 64% of the favorable variance is the result of capital outlay lagging behind the budget. \$500,000 of this \$832,000 in unspent capital outlay budget represents the proposed "Little Italy" Neighborhood Rehabilitation Project which will be funded, in part, with a \$500,000 MSHDA matching grant. These budgeted capital projects plan to be expended in fiscal 2005, much of the favorable variance will be eliminated.

Revenue came in approximately \$749,000 under budget. Major shortfalls were in taxes, federal revenues, state shared revenue and interest earnings. Both state shared revenue and interest lagged both the budget and prior year actual amounts. \$500,000 of the shortfall is the budgeted MSHDA Grant. Until there is a significant change in both the State and national economies, the strain on the City's budget will continue.

The ending fund balance is \$492,411 higher than budgeted because of the combination of the items noted above.

Capital Assets

At the end of 2004, the City had invested \$75,651,152 in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and sewer lines. (See the Capital Asset Table below) This amount represents a net increase (including additions and deductions) of \$4,935,442, or 6.96 percent, over last year.

Table A-4
City of Sault Ste. Marie's Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2004	2003	2004	2003	2004	2003	2004-2003
Land and improvements	\$ 4,457,248	\$ 4,436,902	\$ 164,243	\$ 164,243	\$ 4,621,491	\$ 4,601,145	.01%
Building and improvements	3,892,266	3,442,522	8,382,685	8,613,529	12,274,951	12,056,051	1.82%
Equipment and machinery	2,836,269	2,474,505	1,219,963	1,290,702	4,056,232	3,765,207	7.73%
Water and sewer	-	-	24,428,711	22,489,006	24,428,711	22,489,006	8.63%
Infrastructure	24,849,218	23,144,710	-	-	24,849,218	23,144,710	7.36%
Construction-in-progress	-	-	5,420,549	2,580,543	5,420,549	2,580,543	110.05%
Total	<u>\$36,035,001</u>	<u>\$ 33,498,639</u>	<u>\$39,616,151</u>	<u>\$ 35,138,023</u>	<u>\$ 75,651,152</u>	<u>\$68,636,662</u>	<u>10.22%</u>

The City's fiscal year 2005 capital projects budgets anticipate spending \$13,170,000, principally for a downtown parking deck and replacement of the Fort Street Bridge. This would be funded by a combination of \$6,552,807 in bonding, \$5,112,308 in grants and \$1,504,834 in local funding, some of which was appropriated in prior fiscal years.

In addition, the CSO Phase D utility project, funded by \$9,995,000 of bonds sold in the fiscal 2004, will be completed during fiscal 2005 year.

More detailed information about the City's capital assets is presented in the Notes to the Financial Statements.

Long-term Debt

At year-end the City had approximately \$35.3 million in bonds and notes outstanding - an increase of 5.11 percent over last year - as shown in the table below. More detailed information about the City's long-term liabilities is presented in notes to the financial statements.

The only new debt was a \$12,730 note issued for new equipment at the golf course and a \$395,000 CDBG loan. \$3.464 million of previously approved State Revolving Loan and Drinking Water Revolving Loan funds were received. Another \$2.497 million is approved but not yet drawn down.

Table A-5
City of Sault Ste. Marie's Outstanding Debt

	Governmental Activities		Business-type Activities		Total		Total
	2004	2003	2004	2003	2004	2003	Percent Change 2004-2003
Notes and installments	\$ 793,219	\$ 421,750	\$ -	\$ -	\$ 793,219	\$ 421,750	86.54%
General obligation Bonds (backed by the City)	1,645,000	1,950,000	451,298	709,041	2,096,298	2,659,041	(21.16)%
Revenue bonds and notes (backed by specific tax and fee revenues)	<u>1,620,000</u>	<u>1,780,000</u>	<u>30,577,051</u>	<u>28,142,685</u>	<u>32,197,051</u>	<u>29,922,685</u>	<u>7.60%</u>
Total	<u>\$ 4,058,219</u>	<u>\$ 4,151,750</u>	<u>\$31,028,349</u>	<u>\$ 28,851,726</u>	<u>\$ 35,086,568</u>	<u>\$33,003,476</u>	<u>6.31%</u>

Economic Factors and Next Year's Budgets and Rates

- The City's elected and appointed officials considered many factors when setting the fiscal year 2005 General Fund Budget. A continuing reduction in state revenue, small incremental increase in property tax revenue, loss of interest earnings and rapidly escalating health care costs are combining to force officials to re-evaluate how the City does business.
- A structural deficit has developed and the City cannot continue to draw down the General Fund's fund balance indefinitely. Services have been eliminated.
- The City has used attrition and retirement incentives to eliminate 15 positions from the workforce that existed when the 2003-04 budget was adopted.
- In the Sewer & Water Fund, the cost to a water and sewer customer will go up from \$63.73 to \$69.57 for 700 cubic feet, an increase of \$5.84. As consumption has continued to decline, costs which must be recovered are spread over fewer billable units. For 2004-05, the City used a 3-year average of consumption rather than the previous 5 year average. It is hoped that actual consumption will be closer to that used when establishing rates.

Contacting the City's Financial Management

The financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Spencer Nebel, City Manager, 325 Court Street, City of Sault Ste. Marie, MI 49783.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF SAULT STE. MARIE

STATEMENT OF NET ASSETS

JUNE 30, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 12,052,267	\$ 3,446,754	\$ 15,499,021
Restricted cash and cash equivalents	-	4,522,194	4,522,194
Restricted investments	1,243,112	-	1,243,112
Accounts receivables, net	8,492,807	702,368	9,195,175
Other	176,999	173,687	350,686
Internal balances	(34,732)	34,732	-
Capital assets not being depreciated	1,565,908	5,584,792	7,150,700
Capital assets, net of depreciation	34,469,093	34,031,359	68,500,452
Total assets	57,965,454	48,495,886	106,461,340
Liabilities			
Accounts payable and accrued expenditures	2,783,279	685,797	3,469,076
Deferred revenue	4,297,896	-	4,297,896
Noncurrent liabilities			
Due within one year	573,936	1,545,139	2,119,075
Due in more than one year	3,749,188	29,544,720	33,293,908
Total liabilities	11,404,299	31,775,656	43,179,955
Net assets			
Invested in capital assets, net of related debt	31,976,782	8,587,802	40,564,584
Restricted for trust and perpetual care funds	2,435,831	-	2,435,831
Unrestricted	12,148,542	8,132,428	20,280,970
Total net assets	\$ 46,561,155	\$ 16,720,230	\$ 63,281,385

The accompanying notes are an integral part of these financial statements.

Component Units			
Downtown Development Authority	Economic Development Corporation	TIFA	Library
\$ 1,210,259	\$ 135,041	\$ 189,659	\$ 568,058
-	-	-	-
-	320,000	-	155,666
37,053	5,134	34,505	4,796
-	-	-	-
-	-	-	-
-	20,000	-	22,822
-	10,054	-	249,462
1,247,312	490,229	224,164	1,000,804
14,517	16,511	190,000	74,668
-	-	-	-
-	-	-	-
-	8,152	-	22,077
14,517	24,663	190,000	96,745
-	30,054	-	272,284
-	-	-	-
1,232,795	435,512	34,164	631,775
\$ 1,232,795	\$ 465,566	\$ 34,164	\$ 904,059

CITY OF SAULT STE. MARIE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
Legislative	\$ 51,044	\$ -	\$ -	\$ (51,044)
General government	1,712,962	124,529	796,298	(792,135)
Public safety	3,562,657	54,871	418,970	(2,915,672)
Health and welfare	1,217,091	1,064,666	-	(152,425)
Public works	6,041,048	-	1,922,162	(3,076,149)
Culture and recreation	1,618,671	843,060	406,605	(354,836)
Other	498,313	3,275	-	(495,038)
Interest on long-term debt	213,325	-	-	(213,325)
Total governmental activities	14,915,111	2,090,401	3,544,035	(8,050,624)
Business-type activities				
Water and sewer	4,628,877	5,149,918	1,744,366	2,265,407
Parking	203,170	190,289	4,435	(8,446)
Total business-type activities	4,832,047	5,340,207	1,748,801	2,256,961
Total primary government	\$ 19,747,158	\$ 7,430,608	\$ 5,292,836	\$ (5,793,663)
Component Units				
Downtown Development Authority	794,477	(17,769)	119,079	(693,167)
Economic Development Corporation	157,907	-	115,459	(42,448)
TIFA	273,155	-	-	(273,155)
Library	599,903	202,578	349,204	(48,121)
Total component units	\$ 1,825,442	\$ 184,809	\$ 583,742	\$ (1,056,891)

Continued...

CITY OF SAULT STE. MARIE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (8,050,624)	\$ 2,256,961	\$ (5,793,663)
General revenues			
Property taxes	4,861,097	-	4,861,097
State shared revenues	1,785,290	-	1,785,290
Interest earnings	295,793	80,762	376,555
Transfers - internal activities	(54,172)	54,172	-
Total general revenues	6,888,008	134,934	7,022,942
Change in net assets	(1,162,616)	2,391,895	1,229,279
Net assets, beginning of year, as previously reported	42,003,745	20,652,812	62,656,557
Prior period adjustment	5,720,026	(6,324,477)	(604,451)
Net assets, beginning of year, as restated	47,723,771	14,328,335	62,052,106
Net assets, end of year	\$ 46,561,155	\$ 16,720,230	\$ 63,281,385

The accompanying notes are an integral part of these financial statements.

Component Units			
Downtown Development Authority	Economic Development Corporation	TIFA	Library
\$ (693,167)	\$ (42,448)	\$ (273,155)	\$ (48,121)
488,301	-	177,766	-
-	-	-	-
9,529	-	1,062	-
-	-	-	-
497,830	-	178,828	-
(195,337)	(42,448)	(94,327)	(48,121)
1,373,310	497,460	128,491	952,180
54,822	10,554	-	-
1,428,132	508,014	128,491	952,180
\$ 1,232,795	\$ 465,566	\$ 34,164	\$ 904,059

Concluded

FUND FINANCIAL STATEMENTS

CITY OF SAULT STE. MARIE

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2004

ASSETS	General	Special Revenue Funds		Capital Project Funds	
		Major Street	Local Street	Capital Outlay	CSO Phase D
Cash and cash equivalents	\$ 1,099,975	\$ 489,028	\$ 725,559	\$ 1,046,005	\$ 1,629,196
Restricted investments	-	-	-	-	-
Accounts receivable	295,581	15,000	-	-	-
Taxes receivable	4,297,896	-	-	-	-
Due from other governmental units	649,038	195,320	52,141	-	406,291
Special assessments receivable	-	270,834	406,257	-	617,160
Inventory	32,480	-	-	-	-
Prepaid expenditures	31,707	-	-	-	-
Total assets	\$ 6,406,677	\$ 970,182	\$ 1,183,957	\$ 1,046,005	\$ 2,652,647
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 145,278	\$ 7,987	\$ 33,217	\$ 18,931	\$ 1,024,014
Accrued expenses	65,194	-	-	-	-
Deferred revenue	4,297,896	270,834	406,257	-	617,160
Total liabilities	4,508,368	278,821	439,474	18,931	1,641,174
Fund balances					
Reserved for inventory and prepaid expenses	64,187	-	-	-	-
Reserved reported in permanent funds	-	-	-	-	-
Unreserved					
Designated					
Carbide Dock	171,006	-	-	-	-
Reported in special revenue funds	-	-	-	-	-
Reported in capital project funds	-	-	-	-	1,011,473
Undesignated	1,663,116	691,361	744,483	1,027,074	-
Undesignated reported in special revenue funds	-	-	-	-	-
Total fund balances	1,898,309	691,361	744,483	1,027,074	1,011,473
Total liabilities and fund balances	\$ 6,406,677	\$ 970,182	\$ 1,183,957	\$ 1,046,005	\$ 2,652,647

Nonmajor Governmental Funds	Total Governmental Funds
\$ 5,884,414	\$ 10,874,177
1,243,112	1,243,112
341,400	651,981
-	4,297,896
405,196	1,707,986
538,564	1,832,815
-	32,480
-	31,707
\$ 8,412,686	\$ 20,672,154

\$ 1,339,751	\$ 2,569,178
46,521	111,715
538,564	6,130,711

1,924,836	8,811,604
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-	64,187
2,435,831	2,435,831

-	171,006
219,890	219,890
3,354,287	4,365,760
-	4,126,034
477,842	477,842

6,487,850	11,860,550
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\$ 8,412,686	\$ 20,672,154
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Continued...

CITY OF SAULT STE. MARIE

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2004

Reconciliation of fund balances on the balance sheet for governmental funds to the statement of net assets

Fund balances - total governmental funds \$ 11,860,550

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Add - capital assets (net) 34,914,988

Certain assets, such as special assessments receivable, are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.

Add - deferred revenue on special assessments receivable 1,832,815

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in an internal service fund 2,344,694

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - compensated absences payable (264,905)

Deduct - bonds and notes payable (4,058,219)

Deduct - accrued interest on bonds and notes payable (68,768)

Net assets of governmental activities **\$ 46,561,155**

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2004

	General	Special Revenue Funds		Capital Project Funds	
		Major Street	Local Street	Capital Outlay	CSO Phase D
Revenues					
Taxes	\$ 4,639,734	\$ -	\$ -	\$ 221,363	\$ -
Special assessments	-	54,512	64,638	-	3,540
Federal sources	247,176	-	-	-	-
State sources	2,082,637	1,319,606	458,837	-	-
Local sources	72,475	-	-	-	-
Licenses and permits	61,759	-	-	-	-
Charges for services	1,988,786	-	-	-	-
Interest	70,263	18,916	25,475	3,004	37,368
Miscellaneous	179,103	8,681	-	-	-
Total revenues	9,341,933	1,401,715	548,950	224,367	40,908
Expenditures					
Current					
Legislative	51,044	-	-	-	-
General government	1,829,683	-	-	-	-
Public safety	3,405,838	-	-	-	-
Health and welfare	1,209,127	-	-	-	-
Public works	611,278	1,400,678	1,241,421	-	-
Culture and recreation	1,198,152	-	-	-	-
Other	354,274	-	-	-	-
Capital outlay	258,462	-	-	701,481	5,243,609
Debt service					
Principal	55,661	99,200	60,800	-	-
Interest and fiscal charges	50,191	57,066	40,769	-	-
Total expenditures	9,023,710	1,556,944	1,342,990	701,481	5,243,609
Revenues over (under) expenditures	318,223	(155,229)	(794,040)	(477,114)	(5,202,701)
Other financing sources (uses)					
Loan proceeds	12,730	-	-	-	3,132,628
Transfers in	43,636	255,000	1,138,735	232,994	-
Transfers out	(306,298)	(16,700)	(30,260)	(912,668)	-
Total other financing sources (uses)	(249,932)	238,300	1,108,475	(679,674)	3,132,628
Net change in fund balances	68,291	83,071	314,435	(1,156,788)	(2,070,073)
Fund balances, beginning of year, as previously reported	1,830,018	608,290	430,048	2,183,862	58,864
Prior period adjustment	-	-	-	-	3,022,682
Fund balance, beginning of year, as restated	1,830,018	608,290	430,048	2,183,862	3,081,546
Fund balances, end of year	\$ 1,898,309	\$ 691,361	\$ 744,483	\$ 1,027,074	\$ 1,011,473

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 4,861,097
128,301	250,991
630,000	877,176
373,802	4,234,882
1,017,092	1,089,567
53,425	115,184
43,876	2,032,662
140,767	295,793
21,360	209,144
2,408,623	13,966,496
-	51,044
-	1,829,683
-	3,405,838
-	1,209,127
76,036	3,329,413
142,811	1,340,963
78,199	432,473
2,799,375	9,002,927
285,600	501,261
70,855	218,881
3,452,876	21,321,610
(1,044,253)	(7,355,114)
726,738	3,872,096
469,526	2,139,891
(768,787)	(2,034,713)
427,477	3,977,274
(616,776)	(3,377,840)
6,171,310	11,282,392
933,316	3,955,998
7,104,626	15,238,390
\$ 6,487,850	\$ 11,860,550

Continued...

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2004

**Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balance of
Governmental Funds to the Statement of Activities**

Net change in fund balances - total governmental funds \$ (3,377,840)

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay 4,405,653
Deduct - depreciation expense (2,135,650)

Special assessments receivable are long-term in nature and are collectable over several years. However the current receipts are reflected as revenues on the fund statements.

Deduct - special assessment receipts (250,991)
Add - special assessments 74,119

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities 501,261

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

Deduct - loan proceeds (407,730)
Add - net income from governmental activities accounted for in internal service fund 83,725

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - increase in compensated absences (61,184)
Add - decrease in accrued interest 6,021

Change in net assets of governmental activities \$ (1,162,616)

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2004

	Budget			Variance With Amended Budget Positive (Negative)
	Original	Amended	Actual	
Revenues				
Taxes	\$ 4,673,516	\$ 4,673,516	\$ 4,639,734	\$ (33,782)
Federal sources	5,000	562,390	247,176	(315,214)
State sources	2,204,606	2,435,541	2,082,637	(352,904)
Local sources	66,000	72,475	72,475	-
Licenses and permits	48,800	48,800	61,759	12,959
Charges for services	1,921,224	1,997,084	1,988,786	(8,298)
Interest	145,000	145,000	70,263	(74,737)
Miscellaneous revenue	155,960	155,960	179,103	23,143
Total revenues	9,220,106	10,090,766	9,341,933	(748,833)
Expenditures				
Legislative				
City council	53,630	53,630	51,044	2,586
General government				
City manager	205,898	208,283	201,041	7,242
Clerk	167,905	171,440	167,472	3,968
Assessor	158,375	141,160	134,973	6,187
Attorney	78,825	79,596	76,710	2,886
Finance	328,147	336,292	336,070	222
Cemetery	133,668	132,093	126,189	5,904
Non-departmental	596,630	739,975	787,228	(47,253)
Total general government	1,669,448	1,808,839	1,829,683	(20,844)
Public safety				
Police department	1,959,445	1,952,532	1,865,579	86,953
Fire department	990,094	992,824	934,722	58,102
Sane	67,812	70,912	66,928	3,984
PA 302	5,800	5,800	2,517	3,283
Cops in Schools	-	56,720	50,689	6,031
Inspection	319,011	311,131	290,444	20,687
Planning and development	201,547	203,947	194,959	8,988
Total public safety	3,543,709	3,593,866	3,405,838	188,028
Health and welfare				
Ambulance	1,231,969	1,231,969	1,209,127	22,842
Public works				
Engineering	344,090	338,640	306,319	32,321
Sidewalks and alleys	161,268	161,268	125,797	35,471
Composting	96,015	96,015	87,063	8,952
Airport	63,000	70,500	70,470	30
Industrial park	23,700	23,700	21,629	2,071
Total public works	688,073	690,123	611,278	78,845

Continued...

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2004

	Budget			Variance With Amended Budget Positive (Negative)
	Original	Amended	Actual	
Culture and recreation				
Parks	343,213	341,713	331,738	9,975
Marina	10,080	10,080	5,400	4,680
Kemp Marina	103,200	164,950	140,044	24,906
Pullar	281,816	296,013	281,266	14,747
Recreation	353,972	356,157	339,882	16,275
Historic homes	3,300	8,539	2,437	6,102
Minneapolis Woods	81,550	85,550	85,367	183
Osborn	16,100	16,100	12,018	4,082
Total culture and recreation	1,193,231	1,279,102	1,198,152	80,950
Other				
Insurance and bonds	62,000	70,000	66,724	3,276
General appropriations	287,000	246,580	202,950	43,630
Community promotion	84,060	84,060	72,630	11,430
Energy administration	11,329	12,029	11,970	59
Total other	444,389	412,669	354,274	58,395
Capital outlay	-	1,090,901	258,462	832,439
Debt service				
Principal	71,589	71,689	55,661	16,028
Interest	34,202	34,202	50,191	(15,989)
Total debt service	105,791	105,891	105,852	39
Total expenditures	8,930,240	10,266,990	9,023,710	1,243,280
Revenues over (under) expenditures	289,866	(176,224)	318,223	494,447
Other financing uses				
Loan proceeds	-	12,645	12,730	85
Transfers in	35,000	109,167	43,636	(65,531)
Transfers out	(501,998)	(369,708)	(306,298)	63,410
Total other financing uses	(466,998)	(247,896)	(249,932)	(2,036)
Net change in fund balances	(177,132)	(424,120)	68,291	492,411
Fund balances, beginning of year	1,830,018	1,830,018	1,830,018	-
Fund balances, end of year	\$ 1,652,886	\$ 1,405,898	\$ 1,898,309	\$ 492,411

Concluded

The accompanying notes are an integral part of these financial statements

CITY OF SAULT STE. MARIE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - MAJOR STREET FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
State revenues	\$ 925,540	\$ 1,724,789	\$ 1,319,606	\$ (405,183)
Special assessment	40,000	40,000	54,512	14,512
Interest	17,000	17,000	18,916	1,916
Miscellaneous revenue	-	-	8,681	8,681
Total revenues	982,540	1,781,789	1,401,715	(380,074)
Expenditures				
Public works	860,883	2,125,132	1,400,678	724,454
Debt service				
Principal	99,200	99,200	99,200	-
Interest	57,066	57,066	57,066	-
Total expenditures	1,017,149	2,281,398	1,556,944	724,454
Revenues over (under) expenditures	(34,609)	(499,609)	(155,229)	344,380
Other financing sources (uses)				
Transfers in	-	255,000	255,000	-
Transfers out	(183,000)	(16,700)	(16,700)	-
Total other financing sources	(183,000)	238,300	238,300	-
Net change in fund balances	(217,609)	(261,309)	83,071	344,380
Fund balances, beginning of year	608,290	608,290	608,290	-
Fund balances, end of year	\$ 390,681	\$ 346,981	\$ 691,361	\$ 344,380

The accompanying notes are an integral part of these financial statements.

CITY OF SAULT STE. MARIE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - LOCAL STREET FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Budget		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
State revenues	\$ 435,320	\$ 435,320	\$ 458,837	\$ 23,517
Special assessments	50,000	50,000	64,638	14,638
Interest	22,500	22,500	25,475	2,975
Total revenues	507,820	507,820	548,950	41,130
Expenditures				
Public works	755,475	1,654,210	1,241,421	412,789
Debt service				
Principal	60,800	60,800	60,800	-
Interest	40,770	40,770	40,769	1
Total expenditures	857,045	1,755,780	1,342,990	412,790
Revenues over (under) expenditures	(349,225)	(1,247,960)	(794,040)	453,920
Other financing sources (uses)				
Transfers in	250,000	1,138,735	1,138,735	-
Transfers out	(45,500)	(30,260)	(30,260)	-
Total other financing sources	204,500	1,108,475	1,108,475	-
Net change in fund balance	(144,725)	(139,485)	314,435	453,920
Fund balances, beginning of year	430,048	430,048	430,048	-
Fund balances, end of year	\$ 285,323	\$ 290,563	\$ 744,483	\$ 453,920

The accompanying notes are an integral part of these financial statements.

CITY OF SAULT STE. MARIE

STATEMENT OF NET ASSETS PROPRIETARY FUNDS

JUNE 30, 2004

	Business-type Activities			Governmental Activities
	Water and Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Assets				
Current assets				
Cash and cash equivalents	\$ 2,232,027	\$ 1,214,727	\$ 3,446,754	\$ 1,178,090
Restricted cash and cash equivalents	4,522,194	-	4,522,194	-
Accounts receivable	545,962	766	546,728	2,129
Special assessment receivable	155,640	-	155,640	-
Inventories	173,687	-	173,687	112,812
Total current assets	7,629,510	1,215,493	8,845,003	1,293,031
Noncurrent assets				
Property and equipment, net of accumulated depreciation	39,448,386	167,765	39,616,151	1,120,013
Total assets	47,077,896	1,383,258	48,461,154	2,413,044
Liabilities				
Current liabilities				
Accounts payable	36,323	1,888	38,211	20,956
Accrued expenses	85,991	-	85,991	12,662
Accrued interest	561,595	-	561,595	-
Current portion of bonds payable	1,545,139	-	1,545,139	-
Total current liabilities	2,229,048	1,888	2,230,936	33,618
Noncurrent liabilities				
Compensated absences	57,058	4,452	61,510	-
Bonds payable, net of current portion	29,483,210	-	29,483,210	-
Total liabilities	31,769,316	6,340	31,775,656	33,618
Net assets				
Investment in capital assets net of related debt	8,420,037	167,765	8,587,802	1,120,013
Unreserved	6,888,543	1,209,153	8,097,696	1,259,413
Total net assets	\$ 15,308,580	\$ 1,376,918	\$ 16,685,498	\$ 2,379,426

Reconciliation of net assets on the statement of net assets for enterprise funds to net assets of business-type activities on the statement of net assets

Net assets - total enterprise funds \$ 16,685,498

Amounts reported for business-type activities in the statement of net assets are different because an internal service fund is used by management to charge the costs of certain DPW site activities to individual proprietary funds. Assets and liabilities of this internal service fund are included in business-type activities in the statement of net assets.

Add - portion of internal service funds net operating income attributed 34,732

Net assets of business-type activities \$ 16,720,230

The accompanying notes are an integral part of these financial statements.

CITY OF SAULT STE. MARIE
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	Business-type Activities			Governmental Activities
	Water and Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating revenues				
Charges for services	\$ 5,149,918	\$ 190,289	\$ 5,340,207	\$ 1,169,688
Operating expenses				
Staff support	828,566	-	828,566	-
Pump station	486,143	-	486,143	-
Transmission and distribution	327,734	-	327,734	-
Operating meters	122,658	-	122,658	-
Sewage treatment	681,175	-	681,175	-
Parking lot expenses	-	212,572	212,572	-
Depreciation	892,327	3,198	895,525	234,455
Operation of equipment	-	-	-	834,411
Miscellaneous	9,424	-	9,424	-
Total operating expenses	3,348,027	215,770	3,563,797	1,068,866
Operating income (loss)	1,801,891	(25,481)	1,776,410	100,822
Nonoperating revenues (expenses)				
Interest revenue	69,308	11,454	80,762	12,399
Miscellaneous revenue	128,934	4,435	133,369	164,586
Local contribution	1,615,432	-	1,615,432	-
Interest expense	(1,302,982)	-	(1,302,982)	-
Total nonoperating revenues (expenses)	510,692	15,889	526,581	176,985
Income (loss) before transfers	2,312,583	(9,592)	2,302,991	277,807
Transfers				
Transfers in	522,299	189,354	711,653	262,150
Transfers out	(447,681)	(209,800)	(657,481)	(421,500)
Total transfers	74,618	(20,446)	54,172	(159,350)
Change in net assets	2,387,201	(30,038)	2,357,163	118,457
Net assets, beginning of year as previously reported	19,245,856	1,406,956	20,652,812	2,260,969
Prior period adjustment	(6,324,477)	-	(6,324,477)	-
Net assets, beginning of year, as restated	12,921,379	1,406,956	14,328,335	2,260,969
Net assets, end of year	\$ 15,308,580	\$ 1,376,918	\$ 16,685,498	\$ 2,379,426

Reconciliation of the statement of revenues, expenses and changes in net assets of enterprise funds to the statement of activities

Change in net assets - all enterprise funds \$ 2,357,163

Amounts reported for business-type activities in the statement of net assets are different because an internal service fund is used by management to charge the costs of certain activities to individual enterprise funds. The net revenue (expense) attributable to that fund is reported with business-type activities.

Add - net operating revenue of internal service funds charged to business-type funds 34,732

Change in net assets of business-type activities \$ 2,391,895

The accompanying notes are an integral part of these financial statements.

CITY OF SAULT STE. MARIE

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2004

	Business-type Activities			Governmental Activities
	Water and Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund
Cash flows from operating activities				
Cash collected from customers	\$ 5,277,365	\$ 190,334	\$ 5,467,699	\$ -
Cash collected from other funds	-	-	-	1,170,926
Cash paid for employee wages and benefits	(1,043,680)	(125,550)	(1,169,230)	(271,349)
Cash paid for other operating and administrative expenses	(1,475,251)	(88,555)	(1,563,806)	(629,477)
Net cash provided by (used in) operating activities	2,758,434	(23,771)	2,734,663	270,100
Cash flows from non-capital financing activities				
Transfers out	(447,681)	(209,800)	(657,481)	(421,500)
Transfers in	522,299	189,354	711,653	262,150
Miscellaneous revenue	128,934	4,435	133,369	164,586
Net cash provided by (used in) non-capital financing activities	203,552	(16,011)	187,541	5,236
Cash flows from capital and related financing activities				
Interest payments	(1,262,280)	-	(1,262,280)	-
Principal payments	(1,287,743)	-	(1,287,743)	-
Purchase of property and equipment	(293,755)	-	(293,755)	(500,813)
Net cash provided by (used in) capital and related financing activities	(2,843,778)	-	(2,843,778)	(500,813)
Cash flows from investing activities				
Interest revenue	69,308	11,454	80,762	12,399
Net increase (decrease) in cash and cash equivalents	187,516	(28,328)	159,188	(213,078)
Cash and cash equivalents, beginning of year, as previously reported	10,980,602	1,243,055	12,223,657	1,391,168
Prior period adjustment	(4,413,897)	-	(4,413,897)	-
Cash and cash equivalents, beginning of year, as restated	6,566,705	1,243,055	7,809,760	1,391,168
Cash and cash equivalents, end of year	\$ 6,754,221	\$ 1,214,727	\$ 7,968,948	\$ 1,178,090

Continued...

CITY OF SAULT STE. MARIE

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2004

	Business-type Activities			Governmental Activities
	Water and Sewer	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund
Cash flows from operating activities				
Operating income (loss)	\$ 1,801,891	\$ (25,481)	\$ 1,776,410	\$ 100,822
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	892,327	3,198	895,525	234,455
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	127,447	(47)	127,400	1,238
Due to other funds	-	(719)	(719)	-
Prepaid expenses	-	-	-	5,424
Inventory	(48,394)	-	(48,394)	(1,459)
Accounts payable	22,699	613	23,312	(34,003)
Accrued expenses	(37,536)	(1,335)	(38,871)	(36,377)
Net cash provided (used in) by operating activities	<u>\$ 2,758,434</u>	<u>\$ (23,771)</u>	<u>\$ 2,734,663</u>	<u>\$ 270,100</u>
				Concluded
Non-cash capital and related financing transactions:				
Transfer of capital assets from the CSO D and CSO B capital project funds.			<u>\$ 5,079,898</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF SAULT STE. MARIE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2004

	<u>Employee Benefits Plan</u>	<u>Agency Fund Current Tax Collection</u>
Assets		
Cash and cash equivalents	\$ -	\$ 65,041
Restricted cash and cash equivalents	-	319,026
Restricted investments	10,993,302	-
Taxes receivable	<u>696,387</u>	<u>-</u>
Total assets	<u>11,689,689</u>	<u>\$ 384,067</u>
Liabilities		
Accrued liabilities	-	\$ 321,701
Due to other governmental units	-	62,366
Deferred revenue	<u>696,387</u>	<u>-</u>
Total liabilities	<u>696,387</u>	<u>\$ 384,067</u>
Net assets held in trust for pension benefits	<u>\$ 10,993,302</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF SAULT STE. MARIE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
EMPLOYEE BENEFIT PLAN

FOR THE YEAR ENDED JUNE 30, 2004

Additions to net assets attributed to	
Contributions	
Tax revenue/ employer contribution	\$ 615,959
Employee	<u>151,981</u>
Total contributions	767,940
Net appreciation in fair value of investments	981,960
Interest and dividends	<u>421,322</u>
Total additions	<u>2,171,222</u>
Deductions from net assets attributed to	
Benefit payments	1,294,780
Administrative expenses	<u>73,142</u>
Total deductions	<u>1,367,922</u>
Net increase	803,300
Net assets, beginning of year	<u>10,190,002</u>
Net assets, end of year	<u>\$ 10,993,302</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the *City of Sault Ste. Marie* (the "City") and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Units. The Downtown Development Authority (DDA)/TIFA (TIFA III), Economic Development Corporation (EDC), and Bayliss Public Library (Library), are reported in separate columns to emphasize that they are legally separate from the City. The members of the governing Boards are appointed by the City Commission and the budgets and expenditures must be approved by the City Commission. The City also has the ability to significantly influence operations of these organizations. Separate financial statements of the DDA/TIFA III have not been prepared. Separate financial statements of the EDC are available at Economic Development Corporation, 1301 W. Easterday, Sault Ste. Marie, MI 49783. Separate financial statements of the Library are available at Bayliss Public Library, 541 Library Drive, Sault Ste. Marie, MI 49783.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the use of motor fuel taxes which are restricted by State statute for major street and highway purposes.

The *Local Street Fund* accounts for the use of motor fuel taxes which are restricted by State statute for local street and highway purposes.

The *Capital Outlay Capital Project Fund* accounts for the repair, maintenance and construction of the City's infrastructure.

The *CSO Phase D Project Fund* accounts for the repair, maintenance and construction of the City's sewer system.

The City reports the following major enterprise funds:

The *Water and Sewer Fund* accounts for the operation, maintenance and development of water and sewer facilities.

Additionally, the City reports the following fund types:

Special Revenue Funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt Service Funds. These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Capital Projects Funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Permanent Funds. The Seal Trust, Governor Osborn Trust, and Cemetery Perpetual Care Trust are the City's Permanent Funds. The principal portion of these funds must stay intact, but the interest earnings are used to provide for purposes defined by each trust.

Enterprise Funds. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds. This fund accounts for operations that provide machinery and equipment to other departments of the City on a cost-reimbursement basis.

Pension Trust Fund. This fund accounts for the activities of the City's employee retirement system, which accumulates resources for retirement benefit payments to qualified employees.

Agency Fund. This fund accounts for assets held for other governments and employees in an agency capacity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation.

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes, state revenue and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principle operating revenues of the City's enterprise and internal service funds, charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities and equity

1. Deposits and investments

Most cash balances in the various funds are pooled and invested in money market accounts, Municipal Investment accounts and U.S. Government Securities and Treasury Notes. Interest earned with pooled cash is allocated to each of the funds based on the fund's average equity balance. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "Cash and cash equivalents" and "Investments." The cash resources of the debt service and trust and agency funds are invested separately as required by law.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorizes the City to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

The City's investments during the year consisted of certificate of deposits and an employer benefit plan for pension trust investments.

2. Receivables and payables

All receivables are reported at their gross value, except the General Fund ambulance receivable which is shown net of an estimated allowance for uncollectible accounts of \$129,041 and the Economic Development Corporation of \$7,125.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Property taxes

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Chippewa County. Assessed values, as established annually by the City and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value.

Property taxes are recognized in the fiscal year in which they are levied.

3. *Inventories*

All inventories are valued at cost using the first-in/first-out (FIFO) method.

4. *Restricted assets*

Certain resources are set aside for repayment of the City's Water and Sewer Enterprise Fund revenue bonds and are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable bond covenants.

5. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-15
Marina	7-40
Buildings and building improvements	15-40
Public domain infrastructure	10-50
Water and wastewater system infrastructure	20-75
Vehicles	5-20
Machinery and equipment	5-25

6. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

7. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

8. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and special revenue funds. All annual appropriations lapse at fiscal year end.

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of June 30, 2004:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Statement of Net Assets			
Cash and cash equivalents	\$ 15,499,021	\$ 2,103,017	\$17,602,038
Restricted cash and cash equivalents	4,522,194	-	4,522,194
Restricted investments	<u>1,243,112</u>	<u>475,666</u>	<u>1,718,778</u>
Total Statement of Net Assets	<u>\$ 21,264,327</u>	<u>\$ 2,578,683</u>	<u>23,843,010</u>
Statement of Fiduciary Net Assets			
Cash and cash equivalents			65,041
Restricted cash and cash equivalents			319,026
Restricted Investments			<u>10,993,302</u>
Total			<u>\$35,220,379</u>
Deposits and Investments			
Bank deposits (checking accounts, savings accounts and CDs)			\$23,333,965
Investments in securities, mutual funds and similar vehicles			<u>11,886,414</u>
Total			<u>\$35,220,379</u>

At year end, the carrying amount of deposits was \$23,333,965. The bank balance was \$23,704,854. Of the bank balance, \$951,041 was covered by Federal Depository Insurance Corporation (FDIC). The remaining balance of \$23,704,853 was uninsured and uncollateralized.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The City's Pension Trust Fund holds securities of \$10,993,302 in a trust fund which are not in the City's name. Therefore, these investments are categorized as risk category 3. The carrying amount of the Pension Trust Fund investment is stated at fair value.

At year end, the fair value of the City's investment balances were uncategorized as to risk.

The Governmental Accounting Standards Board Statement No. 3 risk categories are as follows:

1. Insured or registered, or securities held by the City or the City's agent in the City's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or its agent in the City's name.
3. Uninsured and unregistered, with securities held by the counterparty or the counterparty's trust department or agent, but not in the City's name.

B. Receivables

The composition of receivables is as follows as of June 30, 2004:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Accounts receivable	\$ 654,110	\$ 546,728	\$ 9,930
Special assessment receivable	1,832,815	155,640	37,053
Taxes receivable	4,297,896	-	34,505
Due from other governmental units	<u>1,707,986</u>	<u>-</u>	<u>-</u>
Total receivables, net	<u>\$ 8,492,807</u>	<u>\$ 702,368</u>	<u>\$ 81,488</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, *deferred revenue* reported in the governmental funds was \$6,130,711.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

C. Capital assets

Capital assets activity was as follows for the year ended June 30, 2004:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,562,206	\$ 5,102	\$ (1,400)	\$1,565,908
Total non-depreciated assets	<u>1,562,206</u>	<u>5,102</u>	<u>(1,400)</u>	<u>1,565,908</u>
Capital assets being depreciated				
Buildings	5,394,263	661,452	-	6,055,715
Land improvements	3,249,859	136,188	-	3,386,047
Equipment	6,088,146	837,732	-	6,925,878
Infrastructure	<u>37,062,351</u>	<u>3,362,133</u>	<u>(94,740)</u>	<u>40,329,744</u>
Total capital assets being depreciated	<u>51,794,619</u>	<u>4,997,505</u>	<u>(94,740)</u>	<u>56,697,384</u>
Less accumulated depreciation for				
Buildings	(1,951,741)	(211,708)	-	(2,163,449)
Land improvements	(375,163)	(119,544)	-	(494,707)
Equipment	(3,613,641)	(475,968)	-	(4,089,609)
Infrastructure	<u>(13,917,641)</u>	<u>(1,562,885)</u>	<u>-</u>	<u>(15,480,526)</u>
Total accumulated depreciation	<u>(19,858,186)</u>	<u>(2,370,105)</u>	<u>-</u>	<u>(22,228,291)</u>
Total capital assets being depreciated, net	<u>31,936,433</u>	<u>2,627,400</u>	<u>(94,740)</u>	<u>34,469,093</u>
Governmental activities capital assets, net	<u>\$33,498,639</u>	<u>\$ 2,632,502</u>	<u>\$ (96,140)</u>	<u>\$36,035,001</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 164,243	\$ -	\$ -	\$ 164,243
Construction-in-progress	<u>2,580,543</u>	<u>4,310,467</u>	<u>(1,470,461)</u>	<u>5,420,549</u>
Total non-depreciated assets	<u>2,744,786</u>	<u>4,310,467</u>	<u>(1,470,461)</u>	<u>5,584,792</u>
Capital assets being depreciated				
Buildings	16,610,119	-	-	16,610,119
Improvements other than buildings	7,749	-	-	7,749
Machinery and equipment	2,543,339	46,168	-	2,589,507
Water and sewer	<u>28,156,586</u>	<u>2,487,479</u>	<u>-</u>	<u>30,644,065</u>
Total capital assets being depreciated	<u>47,317,793</u>	<u>2,533,647</u>	<u>-</u>	<u>49,851,440</u>
Less accumulated depreciation for				
Buildings	(7,996,590)	(230,844)	-	(8,227,434)
Improvements other than buildings	(7,749)	-	-	(7,749)
Machinery and equipment	(1,252,637)	(116,907)	-	(1,369,544)
Water and sewer	<u>(5,667,580)</u>	<u>(547,774)</u>	<u>-</u>	<u>(6,215,354)</u>
Total accumulated depreciation	<u>(14,924,556)</u>	<u>(895,525)</u>	<u>-</u>	<u>(15,820,081)</u>
Total capital assets being depreciated, net	<u>32,393,237</u>	<u>1,638,122</u>	<u>-</u>	<u>34,031,359</u>
Business-type activities capital assets, net	<u>\$35,138,023</u>	<u>\$ 5,948,589</u>	<u>\$(1,470,461)</u>	<u>\$39,616,151</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

General government	\$ 21,518
Public safety	121,018
Public works	1,606,005
Recreation and culture	387,109
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	<u>234,555</u>

Total depreciation expense – governmental activities **\$2,370,105**

Business-type activities

Water and sewer	\$ 892,326
Parking	<u>3,198</u>

Total depreciation expense – business-type activities **\$ 895,524**

Component Unit – EDC

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Capital assets being depreciated				
Vehicles	15,771	-	-	15,771
Equipment	<u>12,544</u>	<u>-</u>	<u>(90)</u>	<u>12,454</u>
Subtotal	<u>28,315</u>	<u>-</u>	<u>(90)</u>	<u>28,225</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Accumulated depreciation				
Vehicles	\$ (3,154)	\$ (3,154)	\$ -	\$ (6,308)
Equipment	<u>(10,554)</u>	<u>(1,399)</u>	<u>90</u>	<u>(11,863)</u>
Total accumulated depreciation	<u>(13,708)</u>	<u>(4,553)</u>	<u>90</u>	<u>(18,171)</u>
Capital asset being depreciated, depreciated, net	<u>14,607</u>	<u>(4,553)</u>	<u>-</u>	<u>10,045</u>
Governmental activities capital assets, net	<u>\$ 34,607</u>	<u>\$ (4,553)</u>	<u>\$ -</u>	<u>\$ 30,054</u>

Unallocated depreciation expense for the year ended June 30, 2004 was \$4,553.

Component Unit – Bayliss Public Library

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 22,822	\$ -	\$ -	\$ 22,822
Capital assets being depreciated				
Buildings	474,260	-	-	474,260
Land improvements	15,250	-	-	15,250
Furniture and equipment	430,437	-	-	430,437
Book collection	<u>1,937,944</u>	<u>-</u>	<u>-</u>	<u>1,937,944</u>
Total capital assets being depreciated	<u>2,857,891</u>	<u>-</u>	<u>-</u>	<u>2,857,891</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Less accumulated depreciation for				
Buildings	\$ (326,054)	\$ 11,856	\$ -	\$ (337,910)
Land improvements	(15,250)	-	-	(15,250)
Furniture and equipment	(352,242)	(27,949)	-	(380,191)
Book collection	<u>(1,840,492)</u>	<u>(34,586)</u>	<u>-</u>	<u>(1,875,078)</u>
Total accumulated depreciation	<u>(2,534,038)</u>	<u>(74,391)</u>	<u>-</u>	<u>(2,608,429)</u>
Total capital assets being depreciated, net	<u>323,853</u>	<u>(74,391)</u>	<u>-</u>	<u>249,462</u>
Governmental activities capital assets, net	<u>\$ 346,675</u>	<u>\$ (74,391)</u>	<u>\$ -</u>	<u>\$ 272,284</u>

Unallocated depreciation expense for the year ended June 30, 2004 was \$74,391.

D. Accounts payable and accrued expenses

The composition of accounts payable and accrued expenses is as follows as of June 30, 2004:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Accounts payable	\$ 2,715,784	\$ 38,211	\$ 287,605
Accrued expenses	<u>124,377</u>	<u>647,586</u>	<u>8,091</u>
Total payables and accrued expenses	<u>\$ 2,840,161</u>	<u>\$ 685,797</u>	<u>\$ 295,696</u>

E. Interfund receivables, payables and transfers

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. In addition, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the Internal Service Fund.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Interfund transfers consisted of the following for the year ended June 30, 2004:

<u>Transfers in</u>	<u>Transfer out</u>				<u>Subtotal Transfers In</u>
	<u>General Fund</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Capital Outlay</u>	
General Fund	\$ -	\$ -	\$ -	\$ 18,130	\$ 18,130
Major Streets	-	-	-	55,000	55,000
Local Streets	250,000	-	-	655,782	905,782
Capital Outlay	7,500	16,700	30,260	-	54,460
Water and Sewer	-	-	-	105,999	105,999
Nonmajor					
Governmental Funds	48,798	-	-	70,757	118,090
Nonmajor					
Enterprise Funds	-	-	-	7,000	7,000
Internal Service Funds	-	-	-	-	-
Subtotal transfers out	<u>\$ 306,298</u>	<u>\$ 16,700</u>	<u>\$ 30,260</u>	<u>\$ 912,668</u>	<u>\$ 1,264,461</u>

<u>Transfers in</u>	<u>Transfer out</u>				<u>Subtotal Transfers In</u>
	<u>Water and Sewer</u>	<u>Nonmajor Governmental Funds</u>	<u>Nonmajor Enterprise Funds</u>	<u>Internal Service Funds</u>	
General Fund	\$ -	\$ 15,506	\$ 10,000	\$ -	\$ 25,506
Major Streets	-	100,000	-	100,000	200,000
Local Streets	-	132,953	-	100,000	232,953
Capital Outlay	-	178,534	-	-	178,534
Water and Sewer	-	221,500	194,800	-	416,300
Nonmajor					
Governmental funds	258,400	91,571	-	-	351,436
Nonmajor					
Enterprise funds	148,631	28,723	5,000	-	182,354
Internal Service Funds	<u>40,650</u>	<u>-</u>	<u>-</u>	<u>221,500</u>	<u>262,150</u>
Subtotal transfers out	<u>\$ 447,681</u>	<u>\$ 768,787</u>	<u>\$ 209,800</u>	<u>\$ 421,500</u>	<u>\$ 1,849,233</u>

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

F. Long-term debt

A summary of long-term debt and transactions related thereto is as follows for the year ended June 30, 2004:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2004</u>	<u>Due Within 1 Year</u>
<u>Primary Government</u>					
Business-type activities					
1998 State Drinking Water Revolving Fund Loan maturing serially to 2020 in annual installments ranging from \$175,000 to \$260,000 and bearing interest at 2.5%	\$ 3,660,000	\$ -	\$ 175,000	\$ 3,485,000	\$ 180,000
2002 General Obligation Limited Tax Bonds maturing serially to 2023 in annual installments ranging from \$40,000 to \$325,000 and bearing interest ranging from 3.0% to 4.6%.	3,475,000	-	40,000	3,435,000	40,000
2002 General Obligation Unlimited Tax Refunding Bonds maturing serially to 2010 in annual installments ranging from \$50,000 to \$705,000 and bearing interest ranging from 3.75% to 4.5%	3,390,000	-	50,000	3,340,000	55,000
1998 State Revolving Fund Combined Sewer Overflow (CSO) Loan maturing serially to 2020 in annual installments ranging from \$165,000 to \$235,000 and bearing interest at 2.25%.	3,342,230	-	165,000	3,177,230	165,000

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2004</u>	<u>Due Within 1 Year</u>
1995 State Revolving Fund CSO Loan maturing serially to 2017 in annual installments ranging from \$175,000 to \$230,000 and bearing interest at 2.25%.	\$ 2,840,000	\$ -	\$ 175,000	\$ 2,665,000	\$ 180,000
1998 Water Supply and Sewage Disposal System Limited Tax General Obligation Bonds maturing serially to 2018 in annual installments ranging from \$90,000 to \$450,000 and bearing interest ranging from 3.70% to 4.25%.	2,630,000	-	90,000	2,540,000	90,000
2001 Water Supply and Sewer System Limited Tax General Obligation Bonds maturing serially to 2022 in annual installments ranging from \$60,000 to \$260,000 and bearing interest ranging from 3.50% to 5.00%.	2,600,000	-	60,000	2,540,000	65,000
1995 Water Supply and Sewage Disposal System Limited Tax General Obligation Bonds maturing serially to 2015 in annual installments ranging from \$145,000 to \$280,000 and bearing interest ranging from 5.0% to 5.1%.	2,650,000	-	145,000	2,505,000	150,000

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2004</u>	<u>Due Within 1 Year</u>
2002 Clean Water Program State Revolving Fund CSO General Obligation Limited Tax Sewage Disposal System Bonds maturing serially to 2024 in annual installments ranging from \$135,000 to \$210,000 and bearing interest at 2.5%.	\$ 470,989	\$ 1,624,597	\$ -	\$ 2,095,586	\$ 135,000
2003 Drinking Water Revolving Fund Program General Obligation Limited Tax Water Supply System Improvement Revenue Bonds maturing serially to 2024 in annual installments ranging from \$125,000 to \$195,000 and bearing interest at 2.5%.	426,204	1,508,031	-	1,934,235	125,000
2001 Drinking Water Revolving Fund Program General Obligation Limited Tax Water Supply System Improvement Revenue Bonds maturing serially to 2023 in annual installments ranging from \$70,000 to \$115,000 and bearing interest at 2.5%.	1,468,262	331,738	70,000	1,730,000	70,000

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2004</u>	<u>Due Within 1 Year</u>
1997 Limited Tax General Obligation Bonds maturing serially to 2017 in annual installments ranging from \$30,000 to \$65,000 and bearing interest ranging from 4.60% to 5.30%.	\$ 670,000	\$ -	\$ 30,000	\$ 640,000	\$ 30,000
1997 State Water Pollution Control Revolving Fund Limited Tax General Obligation Bonds maturing serially to 2018 in annual installments ranging from \$30,000 to \$35,000 and bearing interest at 2.25%.	520,000	-	30,000	490,000	25,000
1990 General Obligation Unlimited Tax Water Intake Facilities Capital Appreciation Bonds maturing serially to 2005 in installments ranging from \$520,000 to \$525,000 including interest ranging from 7.30% to 7.50%.	<u>709,041</u>	<u>-</u>	<u>257,743</u>	<u>451,298</u>	<u>235,139</u>
Subtotal	28,851,726	3,464,366	1,287,743	31,028,349	1,545,139
Accrued compensated absences	<u>86,899</u>	<u>-</u>	<u>25,389</u>	<u>61,510</u>	<u>-</u>
Total business-type activities	<u>\$28,938,625</u>	<u>\$3,464,366</u>	<u>\$1,313,132</u>	<u>\$31,089,859</u>	<u>\$1,545,139</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2004</u>	<u>Due Within 1 Year</u>
Governmental activities					
2000 Michigan Transportation Authority Bonds maturing serially to 2015 in annual installments ranging from \$5,000 to \$160,000 and bearing interest ranging from 5.0% to 5.3%.	\$ 740,000	\$ -	\$ 5,000	\$ 735,000	\$ 5,000
1997 Building Authority Bonds maturing serially to 2015 in annual installments ranging from \$35,000 to \$70,000 and bearing interest ranging from 4.95% to 5.50%.	655,000	-	35,000	620,000	35,000
1997 Michigan Transportation Authority Bonds maturing serially to 2012 in annual installments ranging from \$40,000 to \$95,000 and bearing interest ranging from 5.0% to 5.3%.	585,000	-	5,000	580,000	40,000
1994 Recreational Building Authority note maturing serially to 2019 in annual installments of \$35,000 including interest at 5.38%.	373,306	-	19,017	354,289	15,967
1991 Michigan Transportation Fund Bonds maturing serially to 2006 in annual installments of \$75,000 and bearing interest ranging from 6.3% to 6.5%.	300,000	-	75,000	225,000	75,000

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2004</u>	<u>Due Within 1 Year</u>
1990 Michigan Transportation Fund Bonds maturing serially to 2005 in annual installments of \$80,000 and bearing interest at 7.10%.	\$ 155,000	\$ -	\$ 75,000	\$ 80,000	\$ 80,000
2004 Building Authority Note maturing in 2009 with monthly installments of \$230 including interest at 3.494%.	-	12,730	-	12,730	2,369
CDBG loan, due in annual installments for 10 years at 5% beginning July 1, 2005.	-	395,000	-	395,000	-
1994 Limited Tax General Obligation Downtown Development Bonds maturing serially to 2006 in annual installments of \$145,000 to \$185,000 and bearing interest ranging from 5.7% to 5.9%.	805,000	-	160,000	645,000	185,000
1991 Limited Tax General Obligation Downtown Development Bonds maturing serially to 2006 in annual installments of \$50,000 and bearing interest ranging from 6.70% to 6.90%.	200,000	-	50,000	150,000	50,000
1989 non-interest bearing Land Contract maturing in 2006 with annual payments of \$15,600.	46,800	-	15,600	31,200	15,600

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2004</u>	<u>Due Within 1 Year</u>
1994 Tax Increment Financing Authority Bonds maturing serially to 2007 in annual installments ranging from \$60,000 to \$85,000 and bearing interest ranging from 5.80% to 6.10%.	\$ 290,000	\$ -	\$ 60,000	\$ 230,000	\$ 70,000
Installment loan repaid in fiscal 2004.	1,644	-	1,644	-	-
Accrued compensated absences	<u>203,721</u>	<u>61,184</u>	<u>-</u>	<u>264,905</u>	<u>-</u>
Total governmental activities	<u>\$ 4,355,471</u>	<u>\$ 468,914</u>	<u>\$ 501,261</u>	<u>\$ 4,323,124</u>	<u>\$ 573,936</u>

Component Units

Economic Development Corporation

Accrued compensated absences	<u>\$ 5,727</u>	<u>\$ 2,425</u>	<u>\$ -</u>	<u>\$ 8,152</u>	<u>\$ -</u>
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Bayliss Public Library

Accrued compensated absences	<u>\$ 22,028</u>	<u>\$ 49</u>	<u>\$ -</u>	<u>\$ 22,077</u>	<u>\$ -</u>
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Accrued compensated absences are generally liquidated by the General Fund for governmental activities, the Water and Sewer Fund for the business activities and the Economic Development Corporation and Bayliss Public Library for the component units.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Annual debt service requirements to maturity for the above obligations except for accrued compensated absences are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 573,936	\$ 189,677	\$ 1,555,000	\$ 1,321,063
2006	572,632	153,995	1,566,298	1,320,579
2007	624,358	122,883	1,930,000	955,798
2008	201,775	101,372	2,010,000	888,969
2009	209,435	92,856	2,085,000	819,213
2010-2014	1,234,060	311,777	9,535,000	3,051,909
2015-2019	642,023	49,200	8,834,821	1,535,342
2020-2024	<u>-</u>	<u>-</u>	<u>3,512,230</u>	<u>324,622</u>
	<u>\$ 4,058,219</u>	<u>\$ 1,021,760</u>	<u>\$31,028,349</u>	<u>\$10,217,495</u>

Total interest expense for the City for the year ending June 30, 2004 was \$1,516,307.

4. OTHER INFORMATION

A. Defined Benefit Pension Plan

Primary Government

Plan Description

The City's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate ranges from 0.00% to 3.34% of annual covered payroll. City employees currently make no contribution to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost

The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.2% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's overfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the last actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	\$ 160,901	100%	\$ -
6/30/03	113,323	100%	-
6/30/04	119,400	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Over-funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/99	\$15,514,516	\$ 13,610,188	\$1,904,327	114%	\$ 3,575,119	0%
12/31/00	16,694,480	15,878,641	815,839	105%	3,741,740	0%
12/31/01	17,481,855	15,814,445	1,667,410	111%	3,468,584	0%
12/31/02	17,503,766	17,447,662	56,104	100%	3,670,545	0%
12/31/03	18,223,939	18,105,810	118,129	101%	3,945,779	0%

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Fire and Police Department Pension and Retirement Plan (Act 345)

Plan Description

The City of Sault Ste. Marie contributes to the City of Sault Ste. Marie Act 345 Retirement System, a single employer, contributory defined benefit pension plan.

Substantially, all full-time Fire and Police Department employees are eligible to participate in the system. Benefits vest after ten years of service. Fire Department employees who retire at age 50 with 25 or more years of service or age 60 regardless of years of service are entitled to retirement benefits equal to 2.8% of three-year average final compensation times the first 25 years of credited service plus 1% of average compensation for each year in excess of 25 years of service. Police employees who retire with 20 years of service or age 60, regardless of years of service, are entitled to retirement benefits equal to 2.6% of three-year average final compensation for each year in excess of 25 years of service.

A post-retirement benefit increase of 2% and 1% respectively, times the number of full years retired for persons retired prior and subsequent to July 1, 1976 respectively, was made effective July 1, 1999. The Plan does not include provisions for other early retirement. Mandatory retirement occurs at age 65.

The system also provides death and disability benefits paid until death, which is, computed in the same manner as the retirement benefit at age 55, reduced to 1.5% of average final compensation for non-duty disability. The duty disability benefit is 50% of average final compensation.

If an employee terminates his or her employment with the Police or Fire Departments and is not eligible for any other benefits under the Plan, the employee is entitled to receive a refund of his or her accumulated contribution plus interest.

Funding Policy

Covered employees contribute 5.6% (Firefighters and Police Sergeants) to 7.5% (Police Patrol) of their annual compensation. The City is required to contribute the remaining amounts necessary to fund the system, using the actuarial basis specified by statute.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	\$ 506,899	100%	\$ -
6/30/03	530,498	100%	-
6/30/04	615,959	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Under- funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
6/30/99	\$ 11,812,714	\$15,059,099	\$3,246,385	78%	\$ 2,084,234	156%
6/30/00	12,106,796	15,986,238	3,879,442	76%	2,087,163	186%
6/30/01	12,323,362	16,519,263	4,195,901	75%	2,215,948	189%
6/30/02	12,198,649	17,439,131	5,240,482	70%	2,157,743	243%
6/30/03	11,819,254	19,043,533	7,224,279	62%	2,279,757	317%

Bayliss Public Library -Component Unit

Plan Description

Bayliss Public Library's (a component unit of the City of Sault Ste. Marie, Michigan), (the "Library") defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Funding Policy

The Library is required to contribute at an actuarially determined rate. The Library is currently required to make no contributions to the Plan. Library employees are also currently not required to make contributions. The contribution requirements of the Library are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Library, depending on the MERS contribution program adopted by the Library.

Annual Pension Cost

The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.2% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the last actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	\$ -	0%	\$ -
6/30/03	-	0%	-
6/30/04	-	0%	-

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Over- funded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/99	\$ 912,064	\$ 677,202	\$ 234,861	135%	\$ 158,267	0%
12/31/00	977,093	734,984	242,108	132%	165,026	0%
12/31/01	1,022,077	769,629	252,448	133%	173,026	0%
12/31/02	1,017,843	812,901	204,942	125%	150,842	0%
12/31/03	986,076	553,784	432,292	178%	140,820	0%

B. Commitments and Contingencies

The City received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2004.

The City leases, under operating lease arrangements, administrative office space and various parcels of land for use as parking lots. The City is also responsible for maintenance and operating expense relating to the property. In addition, the City has entered into an agreement with the Sault Ste. Marie Country Club whereby the club leases the golf course from the City for an annual lease fee which is equivalent to the City's required \$35,000 payment to the Building Authority to retire its \$475,000 note payable.

The City also leases maintenance equipment to the Sault Ste. Marie Country Club whereby the Club leases the equipment from the City for an annual lease fee, which is equivalent to the City's required \$19,058 payment to retire the \$82,419 note payable.

In accordance with an agreement, Chippewa County annually purchases real property taxes and delinquent special assessments (included on the tax bills), which have not been paid as of March 1 from the City. The County has recourse against the City for amounts which remain unpaid.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

The City is involved in various lawsuits now pending. It is the opinion of the City and of its counsel that the outcome of the various lawsuits will not materially affect the operations or the financial position of the City. The amount of all legal costs relating to such actions is not currently determinable.

The Sault Ste. Marie Country Club manages the Municipal Golf course. Under terms of the management agreement profits and losses are to be shared by the City, the Country Club and the Golf Course Trust Fund. For 2003, the Country Club's unaudited statements indicate a loss of \$89,500. The Golf Course Trust Fund is unable to fund its share of the loss. The City and Country Club are in disagreement over how the loss should be allocated. The Country Club contends that the City is responsible for 2/3 of the loss while the City asserts that it is responsible for 1/3 of the loss. The City Manager believes a settlement will result in sharing the loss equally.

C. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's current liability and property insurance is through Municipal Underwriters of Michigan representing Gulf Insurance Group.

The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

D. Prior Period Adjustments

	<u>CSO Phase D</u>	<u>2001 DWRF/SRF Project</u>	<u>Other Special Revenues</u>	<u>Governmental Activities</u>	<u>Water and Sewer</u>	<u>EDC</u>	<u>DDA</u>
Fund balance, beginning of year, as previously reported	\$ 58,864	\$ 251,054	\$ -	\$ -	\$ -	\$ 468,580	\$ 1,373,310
Net Assets beginning of year, as previously reported	-	-	-	42,003,745	19,245,856	-	-
Error in recording, construction-in-progress	-	-	-	-	(2,050,042)	-	-
Error in recording cash in improper fund	3,022,682	618,908	-	3,641,590	(3,641,590)	-	-
Error in recording contribution to another fund	-	-	-	-	(833,639)	-	-
Error in recording revenue received in prior year revenue	-	-	314,408	314,408	-	-	-
Error in recording rent receivable	-	-	-	-	-	10,554	-
Error in recording depreciation on land improvements	-	-	-	(245,659)	-	-	-
Error in recording special assessment revenue	-	-	-	2,009,687	200,794	-	-
Fund balance, end of year, as restated	<u>\$ 3,081,546</u>	<u>\$ 869,962</u>	<u>\$ 314,408</u>	-	-	479,134	1,373,310
Error in recording special assessment revenue				-	-	-	54,822
Net assets, end of year, as restated				<u>\$47,723,771</u>	<u>\$12,921,379</u>	<u>\$ 479,134</u>	<u>\$ 1,428,132</u>

SUPPLEMENTARY INFORMATION

CITY OF SAULT STE. MARIE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2004

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Permanent Funds	Total
ASSETS					
Cash and cash equivalents	\$ 740,113	\$ -	\$ 3,951,582	\$ 1,192,719	\$ 5,884,414
Restricted investments	-	-	-	1,243,112	1,243,112
Accounts receivable	5,351	-	336,049	-	341,400
Due from other governmental units	5,971	-	399,225	-	405,196
Special assessment receivable	-	1,397	537,167	-	538,564
Total assets	\$ 751,435	\$ 1,397	\$ 5,224,023	\$ 2,435,831	\$ 8,412,686
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 7,182	\$ -	\$ 1,332,569	\$ -	\$ 1,339,751
Accrued expenses	46,521	-	-	-	46,521
Deferred revenue	-	1,397	537,167	-	538,564
Total liabilities	53,703	1,397	1,869,736	-	1,924,836
Fund balance					
Reserved	-	-	-	2,435,831	2,435,831
Unreserved					
Designated	219,890	-	3,354,287	-	3,574,177
Undesignated	477,842	-	-	-	477,842
Total fund balance	697,732	-	3,354,287	2,435,831	6,487,850
Total liabilities and fund balances	\$ 751,435	\$ 1,397	\$ 5,224,023	\$ 2,435,831	\$ 8,412,686

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Permanent Funds	Total
Revenues					
Special assessments	\$ -	\$ -	\$ 128,301	\$ -	\$ 128,301
Federal sources	-	-	630,000	-	630,000
State sources	373,802	-	-	-	373,802
Local sources	-	356,455	660,637	-	1,017,092
Charges for services	50,150	-	-	3,275	53,425
Rental	-	-	43,876	-	43,876
Interest	3,955	-	49,580	87,232	140,767
Miscellaneous	21,360	-	-	-	21,360
Total revenues	449,267	356,455	1,512,394	90,507	2,408,623
Expenditures					
Current					
Culture and recreation	142,811	-	-	-	142,811
Public works	-	-	76,036	-	76,036
Other	76,399	-	-	1,800	78,199
Capital outlay	-	-	2,799,375	-	2,799,375
Debt service					
Principal retirement	-	285,600	-	-	285,600
Interest and fiscal charges	-	70,855	-	-	70,855
Total expenditures	219,210	356,455	2,875,411	1,800	3,452,876
Revenues over (under) expenditures	230,057	-	(1,363,017)	88,707	(1,044,253)
Other financing sources (uses)					
Loan proceeds	-	-	726,738	-	726,738
Transfers in	109,643	-	359,883	-	469,526
Transfers out	(416,568)	-	(257,179)	(95,040)	(768,787)
Total other financing sources (uses)	(306,925)	-	829,442	(95,040)	427,477
Net change in fund balance	(76,868)	-	(533,575)	(6,333)	(616,776)
Fund balances, beginning of year, as previously stated	460,192	-	3,268,954	2,442,164	6,171,310
Prior period adjustment	314,408	-	618,908	-	933,316
Fund balance, beginning of year, as reported	774,600	-	3,887,862	2,442,164	7,104,626
Fund balances, end of year	\$ 697,732	\$ -	\$ 3,354,287	\$ 2,435,831	\$ 6,487,850

CITY OF SAULT STE. MARIE
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2004

ASSETS	Seal Trust Operations	Osborn Trust Operations	Gaming Compact	Project Park
Cash and cash equivalents	\$ 271,756	\$ 30,404	\$ -	\$ 3,808
Accounts receivable	-	-	-	-
Due from other governmental units	-	-	-	-
Total assets	\$ 271,756	\$ 30,404	\$ -	\$ 3,808
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 1,000	\$ -	\$ -	\$ -
Accrued expenses	-	-	-	-
Total liabilities	1,000	-	-	-
Fund balances				
Unreserved				
Designated	-	-	-	-
Undesignated	270,756	30,404	-	3,808
Total fund balances	270,756	30,404	-	3,808
Total liabilities and fund balances	\$ 271,756	\$ 30,404	\$ -	\$ 3,808

Special Bridge Maintenance	Industrial Park Site Assessment	1992 Housing Development	Housing	Other Special Revenues	Total Nonmajor Special Revenue Funds
\$ 167,523	\$ -	\$ -	\$ -	\$ 266,622	\$ 740,113
-	-	5,351	-	-	5,351
-	5,971	-	-	-	5,971
\$ 167,523	\$ 5,971	\$ 5,351	\$ -	\$ 266,622	\$ 751,435
\$ -	\$ 5,971	\$ -	\$ -	\$ 211	\$ 7,182
-	-	-	-	46,521	46,521
-	5,971	-	-	46,732	53,703
-	-	-	-	219,890	219,890
167,523	-	5,351	-	-	477,842
167,523	-	5,351	-	219,890	697,732
\$ 167,523	\$ 5,971	\$ 5,351	\$ -	\$ 266,622	\$ 751,435

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Seal Trust Operations	Osborn Trust Operations	Gaming Compact	Project Park
Revenues				
Local sources	\$ -	\$ -	\$ 373,802	\$ -
Charges for services	50,150	-	-	-
Interest	2,111	120	-	44
Miscellaneous	-	-	-	-
Total revenues	52,261	120	373,802	44
Expenditures				
Culture and recreation	142,811	-	-	-
Other expenditures	-	2,597	73,802	-
Total expenditures	142,811	2,597	73,802	-
Revenues over (under) expenditures	(90,550)	(2,477)	300,000	44
Other financing sources (uses)				
Transfers in	76,762	32,881	-	-
Transfers out	(689)	-	(300,000)	-
Total other financing sources (uses)	76,073	32,881	(300,000)	-
Net change in fund balance	(14,477)	30,404	-	44
Fund balances, beginning of year, as previously reported	285,233	-	-	3,764
Prior period adjustment	-	-	-	-
Fund balance, beginning of year, as restated	285,233	-	-	3,764
Fund balances, end of year	\$ 270,756	\$ 30,404	\$ -	\$ 3,808

Special Bridge Maintenance	Industrial Park Site Assessment	1992 Housing Development	Housing	Other Special Revenues	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 373,802
-	-	-	-	-	50,150
1,680	-	-	-	-	3,955
-	-	-	-	21,360	21,360
1,680	-	-	-	21,360	449,267
-	-	-	-	-	142,811
-	-	-	-	-	76,399
-	-	-	-	-	219,210
1,680	-	-	-	21,360	230,057
-	-	-	-	-	109,643
-	-	-	(1)	(115,878)	(416,568)
-	-	-	(1)	(115,878)	(306,925)
1,680	-	-	(1)	(94,518)	(76,868)
165,843	-	5,351	1	-	460,192
-	-	-	-	314,408	314,408
165,843	-	5,351	1	314,408	774,600
\$ 167,523	\$ -	\$ 5,351	\$ -	\$ 219,890	\$ 697,732

CITY OF SAULT STE. MARIE
COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS

JUNE 30, 2004

	ASSETS	1992		
		Debt Service	Special Assessment	Total
Special assessment receivable (equal to deferred revenue)		\$ -	\$ 1,397	\$ 1,397

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Debt Service	1992 Special Assessment	Total
Revenues			
Local contribution	\$ 356,455	\$ -	\$ 356,455
Expenditures			
Debt service			
Principal retirement	285,600	-	285,600
Interest and fiscal charges	70,855	-	70,855
Total expenditures	<u>356,455</u>	<u>-</u>	<u>356,455</u>
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

CITY OF SAULT STE. MARIE
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS

JUNE 30, 2004

ASSETS	Capital Projects	Lakeshore Subdivision	Ashmun Street Project	CSO
Cash and cash equivalents	\$ -	\$ 5,700	\$ 55,395	\$ 949,845
Accounts receivable	188,378	-	-	-
Due from other governmental units	399,225	-	-	-
Special assessment receivable	-	-	-	87,111
Total assets	\$ 587,603	\$ 5,700	\$ 55,395	\$ 1,036,956
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 429,608	\$ -	\$ 29,752	\$ 649
Deferred revenue	-	-	-	87,111
Total liabilities	429,608	-	29,752	87,760
Fund balances				
Unreserved, designated	157,995	5,700	25,643	949,196
Total fund balances	157,995	5,700	25,643	949,196
Total liabilities and fund balances	\$ 587,603	\$ 5,700	\$ 55,395	\$ 1,036,956

CSO Phase B	Public Works Building	2001 DWRF/SRF Project	Equipment Capital Outlay	Total Nonmajor Capital Project Funds
\$ 1,005,596	\$ 1,459,347	\$ 475,699	\$ -	\$ 3,951,582
-	-	180	147,491	336,049
-	-	-	-	399,225
276,845	-	173,211	-	537,167
\$ 1,282,441	\$ 1,459,347	\$ 649,090	\$ 147,491	\$ 5,224,023
\$ 646,171	\$ -	\$ 149,898	\$ 76,491	\$ 1,332,569
276,845	-	173,211	-	537,167
923,016	-	323,109	76,491	1,869,736
359,425	1,459,347	325,981	71,000	3,354,287
359,425	1,459,347	325,981	71,000	3,354,287
\$ 1,282,441	\$ 1,459,347	\$ 649,090	\$ 147,491	\$ 5,224,023

CITY OF SAULT STE. MARIE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR CAPITAL PROJECT FUNDS**

FOR THE YEAR ENDED JUNE 30, 2004

	Capital Projects	Lakeshore Subdivision	Ashmun Street Project	CSO
Revenues				
Special assessments	\$ -	\$ -	\$ -	\$ 33,760
Federal sources	630,000	-	-	-
Local sources	437,900	-	-	-
Rental	-	-	-	-
Interest	-	-	371	17,205
Total revenues	1,067,900	-	371	50,965
Expenditures				
Public works	-	-	-	-
Capital outlay	1,304,662	-	-	-
Total expenditures	1,304,662	-	-	-
Revenues over (under) expenditures	(236,762)	-	371	50,965
Other financing sources (uses)				
Loan proceeds	395,000	-	-	-
Transfers in	25,400	-	-	-
Transfers out	(115,679)	-	-	(58,400)
Total other financing sources (uses)	304,721	-	-	(58,400)
Net change in fund balance	67,959	-	371	(7,435)
Fund balances, beginning of year, as previously reported	90,036	5,700	25,272	956,631
Prior period adjustment	-	-	-	-
Fund balance, beginning of year, as restated	90,036	5,700	25,272	956,631
Fund balances, end of year	\$ 157,995	\$ 5,700	\$ 25,643	\$ 949,196

CSO Phase B	Public Works Building	2001 DWRF/SRF Project	Equipment Capital Outlay	Total Nonmajor Capital Project Funds
\$ 61,390	\$ -	\$ 33,151	\$ -	\$ 128,301
-	-	-	-	630,000
-	-	-	222,737	660,637
-	-	-	43,876	43,876
24,399	-	7,605	-	49,580
85,789	-	40,756	266,613	1,512,394
-	-	-	76,036	76,036
374,178	-	916,475	204,060	2,799,375
374,178	-	916,475	280,096	2,875,411
(288,389)	-	(875,719)	(13,483)	(1,363,017)
-	-	331,738	-	726,738
-	250,000	-	84,483	359,883
(83,100)	-	-	-	(257,179)
(83,100)	250,000	331,738	84,483	829,442
(371,489)	250,000	(543,981)	71,000	(533,575)
730,914	1,209,347	251,054	-	3,268,954
-	-	618,908	-	618,908
730,914	1,209,347	869,962	-	3,887,862
\$ 359,425	\$ 1,459,347	\$ 325,981	\$ 71,000	\$ 3,354,287

CITY OF SAULT STE. MARIE

**COMBINING BALANCE SHEET
PERMANENT FUNDS**

JUNE 30, 2004

ASSETS	Seal Estate Trust	Governor Osborn Trust	Cemetery Perpetual Care	Total Permanent Funds
Cash and cash equivalents				
Cash and cash equivalents	\$ 59,548	\$ 924,102	\$ 209,069	\$ 1,192,719
Restricted investments	1,203,017	-	40,095	1,243,112
Total assets (equal to reserved fund balance)	\$ 1,262,565	\$ 924,102	\$ 249,164	\$ 2,435,831

CITY OF SAULT STE. MARIE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
PERMANENT FUNDS**

FOR THE YEAR ENDED JUNE 30, 2004

	Seal Estate Trust	Governor Osborn Trust	Cemetery Perpetual Care	Total Permanent Funds
Revenues				
Interest	\$ 68,554	\$ 13,751	\$ 4,927	\$ 87,232
Charge for services	-	-	3,275	3,275
Total revenues	68,554	13,751	8,202	90,507
Expenditures				
Capital outlay	900	900	-	1,800
Revenues over (under) expenditures	67,654	12,851	8,202	88,707
Other financing sources (uses)				
Transfers out	(60,155)	(32,881)	(2,004)	(95,040)
Net change in fund balance	7,499	(20,030)	6,198	(6,333)
Fund balances, beginning of year	1,255,066	944,132	242,966	2,442,164
Fund balances, end of year	\$ 1,262,565	\$ 924,102	\$ 249,164	\$ 2,435,831

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2004

	Parking	Transportation Garage Operations	Sewer Plant Equipment Replacement	Water Equipment Replacement	Total Nonmajor Enterprise Funds
Assets					
Current assets					
Cash and cash equivalents	\$ 232,443	\$ -	\$ 881,926	\$ 100,358	\$ 1,214,727
Accounts receivable	-	766	-	-	766
Total current assets	232,443	766	881,926	100,358	1,215,493
Noncurrent assets					
Capital assets, net	167,765	-	-	-	167,765
Total assets	400,208	766	881,926	100,358	1,383,258
Liabilities					
Current liabilities					
Accounts payable	1,123	765	-	-	1,888
Noncurrent liabilities					
Compensated absences	4,452	-	-	-	4,452
Total liabilities	5,575	765	-	-	6,340
Net assets					
Investment in capital assets	167,765	-	-	-	167,765
Unrestricted	226,868	1	881,926	100,358	1,209,153
Total net assets	\$ 394,633	\$ 1	\$ 881,926	\$ 100,358	\$ 1,376,918

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	Parking	Transportation Garage Operations	Sewer Plant Equipment Replacement	Water Equipment Replacement	Total Nonmajor Enterprise Funds
Operating revenues					
Charge for services	\$ 190,288	\$ 1	\$ -	\$ -	\$ 190,289
Operating expenses					
Parking lot expenses	212,572	-	-	-	212,572
Depreciation	3,198	-	-	-	3,198
Total operating expenses	215,770	-	-	-	215,770
Operating income (loss)	(25,482)	1	-	-	(25,481)
Nonoperating revenues					
Interest	2,385	-	7,583	1,486	11,454
Miscellaneous	4,435	-	-	-	4,435
Total nonoperating revenues	6,820	-	7,583	1,486	15,889
Income (loss) before transfers	(18,662)	1	7,583	1,486	(9,592)
Transfers					
Transfers in	12,000	-	92,000	85,354	189,354
Transfers out	(15,000)	-	(44,800)	(150,000)	(209,800)
Total transfers	(3,000)	-	47,200	(64,646)	(20,446)
Change in net assets	(21,662)	1	54,783	(63,160)	(30,038)
Net assets, beginning of year	416,295	-	827,143	163,518	1,406,956
Net assets, end of year	\$ 394,633	\$ 1	\$ 881,926	\$ 100,358	\$ 1,376,918

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	Parking	Transportation Garage Operations	Sewer Plant Equipment Replacement
Cash flows from operating activities			
Cash collected from customers	\$ 190,288	\$ 46	\$ -
Cash paid for employee wages and benefits	(125,550)	-	-
Cash paid for other operating and administrative expenses	(88,509)	(46)	-
Net cash provided by (used in) operating activities	(23,771)	-	-
Cash flows from non-capital financing activities			
Transfers out	(15,000)	-	(44,800)
Transfers in	12,000	-	92,000
Miscellaneous revenue	4,435	-	-
Net cash provided by (used in) non-capital financing activities	1,435	-	47,200
Cash flows from investing activities			
Interest revenue	2,385	-	7,583
Net (decrease) increase in cash and cash equivalents	(19,951)	-	54,783
Cash and cash equivalents, beginning of year	252,394	-	827,143
Cash and cash equivalents, end of year	\$ 232,443	\$ -	\$ 881,926

Water Equipment Replacement	Total Nonmajor Enterprise Funds
\$ -	\$ 190,334
-	(125,550)
-	(88,555)
-	(23,771)
(150,000)	(209,800)
85,354	189,354
-	4,435
(64,646)	(16,011)
1,486	11,454
(63,160)	(28,328)
163,518	1,243,055
\$ 100,358	\$ 1,214,727

Continued...

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Parking</u>	<u>Transportation Garage Operations</u>	<u>Sewer Plant Equipment Replacement</u>
Cash flows from operating activities			
Operating income (loss)	\$ (25,482)	\$ 1	\$ -
Adjustments to reconcile operating income			
(loss) to net cash provided by (used in)			
operating activities			
Depreciation	3,198	-	-
Changes in operating assets and liabilities			
which provided (used) cash			
Accounts receivable	-	(47)	-
Due to other funds	-	(719)	-
Accounts payable	(152)	765	-
Accrued expenses	(1,335)	-	-
Net cash provided by (used in) operating activities	<u><u>\$ (23,771)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

<u>Water Equipment Replacement</u>		<u>Total Nonmajor Enterprise Funds</u>	
\$	-	\$	(25,481)
	-		3,198
	-		(47)
	-		(719)
	-		613
	-		(1,335)
<u>\$</u>		<u>\$</u>	
	-		(23,771)

Concluded

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS

JUNE 30, 2004

	Data Processing	Stock and Equipment	Total Internal Service Funds
Assets			
Current assets			
Cash and cash equivalents	\$ 160,598	\$ 1,017,492	\$ 1,178,090
Accounts receivable	-	2,129	2,129
Inventory	-	112,812	112,812
Total current assets	160,598	1,132,433	1,293,031
Noncurrent assets			
Capital assets, net	237,777	882,236	1,120,013
Total assets	\$ 398,375	\$ 2,014,669	\$ 2,413,044
Liabilities			
Current liabilities			
Accounts payable	\$ 222	\$ 20,734	\$ 20,956
Accrued expenses	-	12,662	12,662
Total current liabilities	222	33,396	33,618
Net assets			
Investment in capital assets net of related debt	237,777	882,236	1,120,013
Unrestricted	160,376	1,099,037	1,259,413
Total net assets	\$ 398,153	\$ 1,981,273	\$ 2,379,426

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Data Processing	Stock and Equipment	Total Internal Service Funds
Operating revenues			
Charge for services	\$ 162,645	\$ 1,007,043	\$ 1,169,688
Operating expenses			
Operation of equipment	84,551	749,860	834,411
Depreciation	51,944	182,511	234,455
Total operating expenses	136,495	932,371	1,068,866
Operating income	26,150	74,672	100,822
Nonoperating revenues			
Interest	-	12,399	12,399
Miscellaneous	-	164,586	164,586
Total nonoperating revenues	-	176,985	176,985
Income before transfers	26,150	251,657	277,807
Transfers			
Transfers in	-	262,150	262,150
Transfers out	-	(421,500)	(421,500)
Total transfers	-	(159,350)	(159,350)
Change in net assets	26,150	92,307	118,457
Net assets, beginning of year	372,003	1,888,966	2,260,969
Net assets, end of year	\$ 398,153	\$ 1,981,273	\$ 2,379,426

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	Data Processing	Stock and Equipment	Total
Cash flows from operating activities			
Cash collected from other funds	\$ 162,645	\$ 1,008,281	\$ 1,170,926
Cash paid for employee wages and benefits	(48,625)	(222,724)	(271,349)
Cash paid for other operating and administrative expenses	(59,888)	(569,589)	(629,477)
Net cash (used in) provided by operating activities	54,132	215,968	270,100
Cash flows from non-capital financing activities			
Transfers in	-	262,150	262,150
Transfers out	-	(421,500)	(421,500)
Miscellaneous revenue	-	164,586	164,586
Net cash (used in) provided by non-capital financing activities	-	5,236	5,236
Cash flows from capital and related financing activities			
Purchase of property, plant and equipment	(39,372)	(461,441)	(500,813)
Net cash used in capital and related financing activities	(39,372)	(461,441)	(500,813)
Cash flows from investing activities			
Interest revenue	-	12,399	12,399
Net (decrease) increase in cash and cash equivalents	14,760	(227,838)	(213,078)
Cash and cash equivalents, beginning of year	145,838	1,245,330	1,391,168
Cash and cash equivalents, end of year	\$ 160,598	\$ 1,017,492	\$ 1,178,090

Continued...

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Data Processing</u>	<u>Stock and Equipment</u>	<u>Total</u>
Cash flows from operating activities			
Operating income (loss)	\$ 26,150	\$ 74,672	\$ 100,822
Adjustments to reconcile operating income			
(loss) to net cash provided by (used in)			
operating activities			
Depreciation	51,944	182,511	234,455
Changes in operating assets and liabilities			
which provided (used) cash			
Accounts receivable	-	1,238	1,238
Prepaid expenses	5,424	-	5,424
Inventory	-	(1,459)	(1,459)
Accounts payable	(29,386)	(4,617)	(34,003)
Accrued expenses	-	(36,377)	(36,377)
Net cash provided by operating activities	<u>\$ 54,132</u>	<u>\$ 215,968</u>	<u>\$ 270,100</u>

Concluded

CITY OF SAULT STE. MARIE
COMBINING BALANCE SHEET
GOVERNMENTAL COMPONENT UNITS

JUNE 30, 2004

	Downtown Development Authority	Economic Development Corporation	TIFA
ASSETS			
Cash and cash equivalents	\$ 1,210,259	\$ 135,041	\$ 189,659
Restricted investments	-	320,000	-
Accounts receivable	-	5,134	-
Taxes receivable	-	-	34,505
Special assessment receivable	37,053	-	-
Total assets	\$ 1,247,312	\$ 460,175	\$ 224,164
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 13,421	\$ 9,516	\$ 190,000
Accrued expenses	1,096	6,995	-
Deferred revenue	37,053	-	-
Total liabilities	51,570	16,511	190,000
Fund balance			
Restricted	-	320,000	-
Unreserved - undesignated	1,195,742	123,664	34,164
Total fund balances	1,195,742	443,664	34,164
Total liabilities and fund balance	\$ 1,247,312	\$ 460,175	\$ 224,164
Reconciliation of fund balances on the balance sheet for component units to the statement of net assets			
Fund balances - component units	\$ 1,195,742	\$ 443,664	\$ 34,164
Amounts reported for component units in the statement of net assets are different because			
Certain assets, such as special assessments receivable, are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.			
Add - special assessments receivable	37,053	-	-
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Add - capital assets (net)	-	30,054	-
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Deduct - compensated absences payable	-	(8,152)	-
Net assets of component units	\$ 1,232,795	\$ 465,566	\$ 34,164

Library	Total
\$ 568,058	\$ 2,103,017
155,666	475,666
4,796	9,930
-	34,505
-	37,053
\$ 728,520	\$ 2,660,171

\$ 74,668	\$ 287,605
-	8,091
-	37,053
74,668	332,749

155,666	475,666
498,186	1,851,756
653,852	2,327,422
\$ 728,520	\$ 2,660,171

\$ 653,852 \$ 2,327,422

- 37,053

272,284 302,338

(22,077)	(30,229)
\$ 904,059	\$ 2,636,584

CITY OF SAULT STE. MARIE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2004

	Downtown Development Authority	Economic Development Corporation	TIFA
Revenues			
Local sources	\$ -	\$ -	\$ -
Taxes	488,301	-	177,766
Special assessments	46,498	-	-
Charges for services	-	-	-
Interest	9,529	9,306	1,062
Miscellaneous	72,581	106,153	-
Total revenues	616,909	115,459	178,828
Expenditures			
General government	-	150,929	-
Recreation and culture	-	-	-
Other expenditures	794,477	-	273,155
Total expenditures	794,477	150,929	273,155
Net change in fund balance	(177,568)	(35,470)	(94,327)
Fund balances, beginning of year, as previously reported	1,373,310	468,580	128,491
Prior period adjustment	-	10,554	-
Fund balance, beginning of year, as restated	1,373,310	479,134	128,491
Fund balances, end of year	\$ 1,195,742	\$ 443,664	\$ 34,164
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balance of Component Units to the Statement of Activities			
Net change in fund balances - component units	(177,568)	(35,470)	(94,327)
Amounts reported for component units in the statement of activities are different because			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Deduct - depreciation expense	-	(4,553)	-
Special assessments receivable are long-term in nature and are collectable over several years. However the current receipts are reflected as revenues on the fund statements.			
Deduct - special assessment receipts	(46,499)		
Add - Special assessments	28,730		
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.			
Deduct - increase in compensated absences		(2,425)	
Change in net assets of component units	\$ (195,337)	\$ (42,448)	\$ (94,327)

Library	Total
\$ 182,000	\$ 182,000
-	666,067
-	46,498
202,578	202,578
13,609	33,506
153,595	332,329
551,782	1,462,978
-	150,929
525,463	525,463
-	1,067,632
525,463	1,744,024
26,319	(281,046)
627,533	2,597,914
-	10,554
627,533	2,608,468
\$ 653,852	\$ 2,327,422

26,319 **(281,046)**

(74,391) (78,944)

(46,499)
28,730

(49)	(2,474)
\$ (48,121)	\$ (380,233)

CITY OF SAULT STE. MARIE
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND - CURRENT TAX COLLECTION FUND

FOR THE YEAR ENDED JUNE 30, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
ASSETS				
Cash and cash equivalents, unrestricted	\$ 22,662	\$ 3,570,676	\$ 3,528,297	\$ 65,041
Investments, restricted	223,445	168,865	73,284	319,026
Total assets	\$ 246,107	\$ 3,739,541	\$ 3,601,581	\$ 384,067
LIABILITIES				
Accrued liabilities	\$ 226,120	\$ 3,548,673	\$ 3,453,092	\$ 321,701
Due to other governmental units	19,987	124,675	82,296	62,366
Total liabilities	\$ 246,107	\$ 3,673,348	\$ 3,535,388	\$ 384,067



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

November 19, 2004

Honorable Mayor and Members
of the City Commission
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Sault Ste. Marie*** (the "City"), as of and for the year ended June 30, 2004, which collectively comprise the ***City of Sault Ste. Marie's*** basic financial statements and have issued our report thereon dated November 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated November 19, 2004.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and the City Commission and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

SINGLE AUDIT

CITY OF SAULT STE. MARIE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Program or Award Grant Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Pass through Michigan Economic Development Corporation			
Community Development Block Grant (CDBG) Program grant	14.228	MSC 202061-EDIG	\$ 630,000
Community Development Block Grant (CDBG) Program loan	14.228	MSC 202061-EDIG	395,000
Total U.S. Department of Housing and Urban Development			<u>1,025,000</u>
U.S. DEPARTMENT OF JUSTICE			
C.O.P.S. in Schools	16.710	2000SHWX0054	25,140
Pass through Michigan Department of Community Health			
Sane 10/1/02 to 9/30/03	16.579	70868-4K-02	9,607
Sane 10/1/03 to 9/30/04	16.579	70868-5K-03	24,457
			<u>34,064</u>
Passed through Michigan State Police			
Domestic preparedness assistance	16.007		74,853
Total U.S. Department of Justice			<u>134,057</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Pass through Michigan Department of Environmental Quality			
Capitalization Grants for State Revolving Funds	66.458	5129-04	440,472
Capitalization Grants for Drinking Water State Revolving Funds	66.458	7010-02	228,731
Capitalization Grants for Drinking Water State Revolving Funds	66.458	7010-03	1,039,781
Coastal Management Grant	11.419	03D-11.04	14,170
Total U.S. Environmental Protection Agency			<u>1,723,154</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through Michigan Department of Transportation			
Section 5311 Operating Assistance	20.507	2002-0084 Z-5	9,443
Section 5311 Operating Assistance	20.507	2002-0084 Z-7	25,279
Section 5309 Capital grant	20.507	2002-0084 Z-2	2,795
Section 5309 Capital grant	20.507	2002-0084 Z-3	61,432
Total U.S. Department of Transportation			<u>98,949</u>
Total Federal Award Expenditures			<u>\$ 2,981,160</u>

Continued...

CITY OF SAULT STE. MARIE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Reconciliation from SEFA to federal revenue reported in the financial statements

Total federal revenue per FS	\$ 877,176
Loans listed on schedule of federal expenditures	<u>2,103,984</u>
Federal expenditures per SEFA	<u><u>\$ 2,981,160</u></u>
	Concluded

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of presentation-

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the *City of Sault Ste. Marie*, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the government's basic financial statements.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO THE MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

November 19, 2004

Honorable Mayor and Members
of the City Commission
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

Compliance

We have audited the compliance of the *City of Sault Ste. Marie* (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2004. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to its federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on its major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, others within the organization, City Commission and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent initial 'L'.

CITY OF SAULT STE. MARIE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2004

SECTION I - SUMMARY OF AUDITORS RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Reportable conditions identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of major programs:

CFDA #

Name of Program

14.228
66.458

Community Development Block Grant
Capitalization Grants for State
Revolving Funds

Dollar threshold to distinguish between type A and type B programs:	\$300,000
Auditee qualified as a low risk auditee?	No

continued....

CITY OF SAULT STE. MARIE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED JUNE 30, 2004

SECTION II – FINANCIAL STATEMENT FINDINGS

No financial statement findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No federal award findings and questioned costs.

ADDITIONAL INFORMATION

Continuing Disclosure Filing

City of Sault Ste. Marie
County of Chippewa, State of Michigan

Fiscal Year Ended
June 30, 2004

MUNICIPAL SECONDARY MARKET DISCLOSURE INFORMATION COVER SHEET

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository pursuant to Securities and Exchange Commission Rule 15c2-12.

Issuer's and/or Other Obligated Person's Name: City of Sault Ste. Marie

CUSIP Numbers (attach additional sheet if necessary):

- ☐ Nine-digit number(s) to which the information relates:
☒ Information relates to **all securities** issued by the issuer having the following six-digit number(s): 169682, 804413

* * *

Number of pages of attached information:

Description of Material Event Notice / Financial Information (Check One):

1. _____ Principal and interest payment delinquencies
2. _____ Non-Payment related defaults
3. _____ Unscheduled draws on debt service reserves reflecting financial difficulties
4. _____ Unscheduled draws on credit enhancements reflecting financial difficulties
5. _____ Substitution of credit or liquidity providers, or their failure to perform
6. _____ Adverse tax opinions or events affecting the tax-exempt status of the security
7. _____ Modifications to rights of securities holders
8. _____ Bond calls
9. _____ Defeasances
10. _____ Release, substitution, or sale of property securing repayment of the securities
11. _____ Rating changes
12. _____ Failure to provide annual financial information as required for the fiscal years ended June 30, 1998, 1999 and 2000
13. _____ Other material event notice (specify)
14. X Financial information*: Please check all appropriate boxes:

☐ CAFR: (a) ☐ includes ☐ does not include Annual Financial Information

(b) Audited? Yes ☐ No ☐

☒ Annual Financial Information: Audited? Yes ☒ No ☐

☒ Operating Data

Fiscal Period Covered: Fiscal Year Ended June 30, 2004

*Financial information **should not** be filed with the MSRB

* * *

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature: _____

Name: John Boger Title: Finance Director

Employer: City of Sault Ste. Marie, Michigan

Address: 325 Court Street

City, State, Zip Code: Sault Ste. Marie, Michigan 49783

Voice Telephone Number: (906) 635-5726

LIST OF CURRENT
NATIONALLY RECOGNIZED MUNICIPAL SECURITIES
INFORMATION REPOSITORIES (NRMSIRs)

Standard & Poor's Securities Evaluations, Inc.
55 Water Street – 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
E-mail: nrmsir_repository@sandp.com

Bloomberg Municipal Repositories
100 Business Park Drive
Skillman, NJ 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
E-mail: Munis@Bloomberg.com

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
E-mail: Nrmsir@FTID.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-mail: nrmsir@dpcdata.com

STATE INFORMATION REPOSITORY

Municipal Advisory Council of Michigan
1445 First National Building
Detroit, Michigan 48226-3517
Phone: 313-963-0420
Fax: 313-963-0943
E-mail: Jackie@macmi.com

Population

1960 U.S. Census.....	18,722
1980 U.S. Census	14,448
1970 U.S. Census	15,136
1990 U.S. Census.....	14,689
2000 U.S. Census.....	14,483

Source: U.S. Department of Commerce - Bureau of Census

City of Sault Ste. Marie Total Taxable Value Fiscal Years Ended or Ending June 30, 2001 Through 2005

Assessed Value as of December 31	Year of State Equalization And Tax Levy	City's Fiscal Years Ended or Ending June 30	Ad Valorem Taxable Value	Equivalent Taxable Value of Property Granted Tax Abatement Under Act 198 (1)	Total Taxable Value	Percent Increase Over Prior Year
1999	2000	2001	220,078,926	1,382,875	221,461,801	1.29%
2000	2001	2002	226,633,609	3,429,775	230,063,384	3.88
2001	2002	2003	230,746,348	3,501,750	234,248,098	1.82
2002	2003	2004	235,109,881	3,382,500	238,492,381	1.81
2003	2004	2005	242,512,276	3,288,300	245,800,576	3.06

Per Capita Total Taxable Value for the Fiscal Year Ending June 30, 2005 (2)..... \$16,971.66

(1) At the full tax rate. See "Tax Abatement" herein.

(2) Based on the City's 2000 Census population of 14,483.

Source: City of Sault Ste. Marie

City of Sault Ste. Marie Total Taxable Value by Use and Class Fiscal Years Ended or Ending June 30, 2001 Through 2005

	Fiscal Year Ended or Ending June 30				
Use	2001	2002	2003	2004	2005
Commercial	\$ 93,016,731	\$ 92,020,274	\$ 90,103,040	\$ 90,021,978	\$ 91,676,649
Industrial.....	13,918,002	17,984,495	17,240,220	18,394,769	18,158,882
Residential/Agr.	108,909,868	114,296,615	120,850,338	125,721,334	131,228,445
Utility.....	5,617,200	5,762,000	6,054,500	4,354,300	4,736,600
Total	<u>\$ 221,461,801</u>	<u>\$ 230,063,384</u>	<u>\$ 234,248,098</u>	<u>\$ 238,492,381</u>	<u>\$ 245,800,576</u>
Class	2001	2002	2003	2004	2005
Real Property	\$ 201,106,463	\$ 206,059,090	\$ 211,307,594	\$ 217,157,681	\$ 224,212,826
Personal Property	20,355,338	24,004,294	22,940,504	21,334,700	21,587,750
Total	<u>\$ 221,461,801</u>	<u>\$ 230,063,384</u>	<u>\$ 234,248,098</u>	<u>\$ 238,492,381</u>	<u>\$ 245,800,576</u>

City of Sault Ste. Marie
Percent of Total Taxable Value by Use and Class
Fiscal Years Ended or Ending June 30, 2001 Through 2005

Use	Fiscal Year Ended or Ending June 30				
	2001	2002	2003	2004	2005
Commercial	42.00%	40.00%	38.47%	37.75%	37.30%
Industrial.....	6.28	7.82	7.36	7.71	7.39
Residential	49.18	49.68	51.59	52.71	53.39
Utility.....	2.54	2.50	2.58	1.83	1.92
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Class	2001	2002	2003	2004	2005
Real Property	90.81%	89.57%	90.21%	91.05%	91.22%
Personal Property	9.19	10.43	9.79	8.95	8.78
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

City of Sault Ste. Marie
Total State Equalized Valuation
Fiscal Years Ended or Ending June 30, 2001 Through 2005

Assessed Value as of December 31	Year of State Equalization and Tax Levy	City's Fiscal Year Ended or Ending June 30	Ad Valorem SEV	SEV of Property Granted Tax Abatement Under Act 198	Total SEV	Percent Increase Over Prior Year
1999	2000	2001	251,239,310	2,765,750	254,005,060	2.33
2000	2001	2002	260,155,270	6,859,550	267,014,820	5.12
2001	2002	2003	259,352,670	7,003,500	266,356,170	(0.24)
2002	2003	2004	264,172,120	6,765,000	270,937,120	1.72
2003	2004	2005	271,003,200	6,576,600	277,579,800	2.45

Per Capita Total SEV for the Fiscal Year Ending June 30, 2005 (2) \$19,165.90

(1) See "Tax Abatement" herein.

(2) Based on the City's 2000 Census population of 14,483.

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Total SEV by Use and Class
Fiscal Years Ended or Ending June 30, 2001 Through 2005

	Fiscal Year Ended or Ending June 30				
<u>Use</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Commercial	\$ 101,466,690	\$ 103,559,450	\$ 100,149,000	\$ 98,794,300	\$ 99,209,600
Industrial.....	15,482,770	21,414,270	20,741,970	21,808,420	21,471,000
Residential/Agr.....	131,438,400	136,279,100	139,410,700	145,980,100	152,162,600
Utility.....	5,617,200	5,762,000	6,054,500	4,354,300	4,736,600
	<u>\$ 254,005,060</u>	<u>\$ 267,014,820</u>	<u>\$ 266,356,170</u>	<u>\$ 270,937,120</u>	<u>\$ 277,579,800</u>

<u>Class</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Real Property	\$ 232,778,860	\$ 241,116,620	\$ 241,644,470	\$ 247,887,520	\$ 254,444,600
Personal Property.....	21,226,200	25,898,200	24,711,700	23,049,600	23,135,200
	<u>\$ 254,005,060</u>	<u>\$ 267,014,820</u>	<u>\$ 266,356,170</u>	<u>\$ 270,937,120</u>	<u>\$ 277,579,800</u>

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Percent of Total SEV by Use and Class
Fiscal Years Ended or Ending June 30, 2001 Through 2005

	Fiscal Year Ended or Ending June 30				
<u>Use</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Commercial	39.95%	38.78%	37.60%	36.46%	35.74%
Industrial.....	6.10	8.02	7.79	8.05	7.74
Residential	51.74	51.04	52.34	53.88	54.82
Utility.....	2.21	2.16	2.27	1.61	1.70
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

<u>Class</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Real Property	91.64%	90.30%	90.72%	91.49%	91.67%
Personal Property.....	8.36	9.70	9.28	8.51	8.33
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Source: City of Sault Ste. Marie

Tax Abatement

The City's Ad Valorem Taxable Value does not include the value of certain facilities which have temporarily been removed from the Ad Valorem Tax Roll pursuant to Act 198. The Act was designed to provide a stimulus in the form of significant tax incentives to industrial enterprises to renovate and expand aging facilities ("Rehab Properties") and to build new facilities ("New Properties"). Except as indicated below, under the provisions of the Act, a local governmental unit (i.e., a city, village or township) may establish plant rehabilitation districts and industrial development districts and offer industrial firms certain property tax incentives or abatements to encourage restoration or replacement of obsolete facilities and to attract new facilities to the area.

An industrial facilities exemption certificate granted under Act 198 entitles an eligible facility to exemption from Ad Valorem Taxes for a period of up to 12 years. In lieu of Ad Valorem Taxes, the eligible facility will pay an industrial facilities tax (the "IFT Tax"). For properties granted tax abatement under Act 198 there exists a separate tax roll referred to as the industrial facilities tax roll (the "IFT Tax Roll"). The IFT Tax for an obsolete facility which is being restored or replaced is determined in exactly the same manner as the Ad Valorem Tax; the important difference being that the value of the property remains at the Taxable Value level prior to the improvements even though the restoration or replacement substantially increases the value of the facility. For a new facility the IFT Tax is also determined the same as the Ad Valorem Tax but instead of using the total mills levied as Ad Valorem Taxes, a lower millage rate is applied. For abatements granted prior to 1994, this millage rate equals 1/2 of all tax rates levied by other than the State and local school district for operating purposes plus 1/2 of the 1993 rate levied by the local school district for operating purposes. For abatements granted after

1993, this millage rate equals 1/2 of all tax rates levied by other than the State and local school district plus none, 1/2 or the entire State tax rate (as determined by the State Treasurer).

The City has established goals, objectives and procedures to provide the opportunity for industrial and commercial development and expansion. Since 1974, the City has approved a number of applications for local property tax relief for industrial firms. The SEV of properties that have been granted tax abatement under Act 198, removed from the Ad Valorem Tax Roll and placed on the IFT Tax Roll totaled \$6,576,600 for the fiscal year ending June 30, 2005. The IFT Taxes paid on these properties is equivalent to Ad Valorem Taxes paid on \$3,288,300 of Taxable Value at the full tax rate (the "Equivalent Taxable Value"). Upon expiration of the industrial facilities exemption certificates the current equalized valuation of the abated properties will return to the Ad Valorem Tax Roll as Taxable Value.

**City of Sault Ste. Marie
Maximum Tax Rates
Fiscal Year Ending June 30, 2005**

<u>Millage Classification</u>	<u>Millage Authorized</u>	<u>Millage Reduction Fraction (1)</u>	<u>Maximum Allowable Millage</u>
Operating	20.0000	0.840695	16.8139
Refuse Collection and Disposal.....	3.0000	0.840695	2.5221
Library	1.0000	0.840695	0.8407

(1) Cumulative

Source: City of Sault Ste. Marie

**City of Sault Ste. Marie
Property Tax Rates
Fiscal Years Ended or Ending June 30, 2001 Through 2005**

<u>Levy July 1</u>	<u>Fiscal Year Ended or Ending June 30</u>	<u>Operating</u>	<u>Police and Fire Pension</u>	<u>Refuse Collection and Disposal</u>	<u>Library</u>	<u>Total</u>
2000	2001	16.8139	2.2400	0.7500	0.8000	20.6039
2001	2002	16.8139	2.3530	0.6370	0.8000	20.6039
2002	2003	16.8139	2.4161	0.5739	0.8000	20.6039
2003	2004	16.8139	2.7461	0.4200	0.8000	20.7800
2004	2005	16.8139	3.0211	0.4200	0.8000	21.0550

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Homestead(1) Property Tax Rates by Governmental Unit
Fiscal Years Ended June 30, 2000 Through 2004

<u>Governmental Unit</u>	<u>Fiscal Year Ended June 30</u>				
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
City of Sault Ste. Marie	\$20.6039	\$20.6039	\$20.6039	\$20.6039	\$20.7800
Chippewa County	8.6463	8.6244	8.5720	8.5708	8.5962
State Education Levy	6.0000	6.0000	6.0000	6.0000	5.0000
Sault Ste. Marie Public Schools...	2.7500	2.7500	2.7500	2.7500	2.6200
Intermediate School District	<u>1.0204</u>	<u>1.0133</u>	<u>1.0026</u>	<u>0.9953</u>	<u>0.9952</u>
Total.....	<u>\$39.0206</u>	<u>\$38.9916</u>	<u>\$38.9285</u>	<u>\$38.9200</u>	<u>\$37.9914</u>

City of Sault Ste. Marie
Non-Homestead(1) Property Tax Rates by Governmental Unit
Fiscal Years Ended June 30, 2000 Through 2004

<u>Governmental Unit</u>	<u>Fiscal Year Ended June 30</u>				
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
City of Sault Ste. Marie	\$20.6039	\$20.6039	\$20.6039	\$20.6039	\$20.7800
Chippewa County	8.6463	8.6244	8.5720	8.5708	8.5962
State Education Levy	6.0000	6.0000	6.0000	6.0000	5.0000
Sault Ste. Marie Public Schools..	20.7500	20.7500	20.7500	20.7500	20.5804
Intermediate School District	<u>1.0204</u>	<u>1.0133</u>	<u>1.0026</u>	<u>0.9953</u>	<u>0.9952</u>
Total.....	<u>\$57.0206</u>	<u>\$56.9916</u>	<u>\$56.9285</u>	<u>\$56.9200</u>	<u>\$55.9518</u>

(1) *Homestead* means a dwelling or unit in a multiple-unit dwelling subject to ad valorem property taxes that is owned and occupied as a principal residence by the owner of the dwelling or unit. Homestead includes all unoccupied property classified as agricultural adjacent and contiguous to the home of the owner that is not leased or rented by the owner to another person if the gross receipts of the agricultural or horticultural operations, if any, exceed the household income of the owner. If the gross receipts of the agricultural or horticultural operations do not exceed the household income of the owner, the homestead includes only 5 acres adjacent and contiguous to the home of the owner. Homestead includes a life care facility registered under the living care disclosure act, Act No. 440 of the Public Acts of 1976, being sections 554.801 to 554.844 of the Michigan Compiled Laws. Homestead also includes property owned by a cooperative housing corporation and occupied as a principal residence by tenant stockholders. *Non-homestead* is property not included in the above definition.

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Property Tax Collections
Fiscal Years Ended or Ending June 30, 2001 Through 2005

<u>July 1</u>	<u>Fiscal Year</u>	<u>Collections</u>		<u>Percent</u>
<u>Levy</u>	<u>Ended or Ending</u>	<u>to March 1</u>	<u>Following Levy</u>	<u>Collected</u>
	<u>June 30</u>	<u>Tax Levy (1)</u>		
2000	2001	\$4,303,184	3,856,394	90.83%
2001	2002	4,461,233	3,908,739	92.42
2002	2003	4,528,778	4,123,257	92.49
2003	2004	4,654,115	4,348,754	93.44
2004	2005	4,885,476	(In Process of Collection)	

(1) Includes all millages levied by the City. Includes certain taxes on properties granted tax abatement under Act 198. See "Tax Abatement" herein.

Source: City of Sault Ste. Marie

**City of Sault Ste. Marie
Ten Largest Taxpayers
Fiscal Year Ending June 30, 2005**

<u>Taxpayer</u>	<u>Principal Product or Service</u>	<u>Taxable Value</u>	<u>Percent of Total (1)</u>
Edison Sault Electric Company	Electric Company	\$ 13,775,500	5.53%
DDR Michigan II LLC	Cascade Crossing Shopping Mall	7,818,193	3.14
Sault Ste. Marie Tribe of Chippewa Indians ..	Various.....	3,197,104	1.28
Key Plastics LLC	Industrial Company	3,031,600	1.22
Precision Edge Surgical Products.....	Medical Products	2,400,500	0.96
Ojibway LLC-Great Lakes LLC	Motel and Restaurant	1,568,100	0.63
Sault Express Limited	Hotel	1,510,500	0.61
Michigan Consolidated Gas Co.....	Gas	1,413,800	0.57
Central Savings Bank	Bank.....	1,348,010	0.54
Simon Benjamin W-Trust	Shopping Center	1,155,848	0.46
		<u>\$ 37,219,155</u>	<u>14.94%</u>

(1) Based on \$249,088,876 which the City's Total Taxable Value for its fiscal year ending June 30, 2005. Includes the Equivalent Taxable Value of property granted tax abatement under Act 198. See "Property Valuations" and "Tax Abatement" herein.

Source: City of Sault Ste. Marie

Legal Debt Margin

Pursuant to the statutory and constitutional debt provisions set forth herein, the following table reflects the amount of additional debt the City may legally incur as of October 2, 2004.

Debt Limit (1)		\$27,757,980
Debt Outstanding (2)	\$36,313,617	
Less: Exempt Debt (3)	<u>27,103,992</u>	<u>9,209,625</u>
Legal Debt Margin.....		<u>\$18,548,355</u>

(1) 10% of \$277,579,800, which is the City's Total SEV for the fiscal year ending June 30, 2005. Includes the SEV of property granted tax abatement under Act 198. See "Tax Abatement" herein.

Source: Municipal Advisory Council of Michigan and the City of Sault Ste. Marie

Debt Statement

The following table reflects a breakdown of the City's direct and overlapping debt as of October 2, 2004. Direct debt that is shown as self-supporting is paid from sources other than the City's General Fund.

To the extent necessary, the City may levy taxes on all taxable property within its boundaries without limitation as to rate or amount to pay the principal of and interest due on the bonds that are designated as Unlimited Tax ("UT"). However, the City's ability to levy tax to pay the debt service on the bonds which are designated as Limited Tax ("LT"), is subject to applicable charter, statutory and constitutional limitations.

<u>City Direct Debt</u>	<u>Gross</u>	<u>Self-Supporting</u>	<u>Net</u>
Share of County Issued Bonds:			
Dated December 11, 2001 (LT).....	\$ 2,540,000	\$ 2,540,000	\$ -0-
Dated November 4, 1998 (LT)	2,540,000	2,540,000	-0-
Dated November 29, 1995 (LT)	2,355,000	2,355,000	-0-
Subtotal	<u>\$ 7,435,000</u>	<u>\$ 7,435,000</u>	<u>\$ -0-</u>
Building Authority Bonds:			
Dated June 1, 1997 (LT).....	\$ 585,000	\$ -0-	\$ 585,000
Dated March 1, 1994 (LT).....	356,000	356,000	-0-
Subtotal	<u>\$ 941,000</u>	<u>\$ 356,000</u>	<u>\$ 585,000</u>
Michigan Transportation Fund Bonds:			
Dated November 1, 2000 (LT)	\$ 730,000	\$ 730,000	\$ -0-
Dated June 1, 1997 (LT).....	580,000	580,000	-0-
Dated October 1, 1991 (LT)	150,000	150,000	-0-
Dated April 1, 1990 (LT).....	80,000	80,000	-0-
Subtotal	<u>\$ 1,540,000</u>	<u>\$ 1,540,000</u>	<u>\$ -0-</u>
Tax Increment Bonds:			
Dated November 1, 1994 (LT)	\$ 230,000	\$ 230,000	\$ -0-
Dated June 1, 1994 (LT).....	460,000	460,000	-0-
Dated September 1, 1991 (LT).....	100,000	100,000	-0-
Subtotal	<u>\$ 790,000</u>	<u>\$ 790,000</u>	<u>\$ -0-</u>
Capital Improvement Bonds:			
Dated October 1, 2002 (LT)	\$ 3,395,000	\$ 3,395,000	\$ -0-
Subtotal	<u>\$ 3,395,000</u>	<u>\$ 3,395,000</u>	<u>\$ -0-</u>
Water and Sewer Bonds:			
Dated March 27, 2003 (LT)	\$ 3,135,000	\$ 3,135,000	\$ -0-
Dated September 26, 2002 (LT)	3,385,000	3,385,000	-0-
Dated June 1, 2002 (UT)	3,285,000	3,285,000	-0-
Dated September 28, 2001 (LT)	1,730,000	1,730,000	-0-
Dated September 29, 1998 (LT)	3,185,000	3,185,000	-0-
Dated September 29, 1998 (LT)	3,485,000	3,485,000	-0-
Dated September 30, 1997 (LT)	510,000	510,000	-0-
Dated September 1, 1997 (LT).....	610,000	610,000	-0-
Dated September 28, 1995 (LT)	2,670,000	2,670,000	-0-
Dated October 18, 1990 (LT)	173,992	173,992	-0-
Subtotal	<u>\$ 22,168,992</u>	<u>\$ 22,168,992</u>	<u>\$ -0-</u>
Installment Purchase Obligations:			
Dated June 29, 2004 (LT).....	\$ 12,425	\$ -0-	\$ 12,425
Dated June 12, 1989 (LT).....	31,200	31,200	-0-
Subtotal	<u>\$ 43,625</u>	<u>\$ 31,200</u>	<u>\$ 12,425</u>
Total	<u>\$ 36,313,617</u>	<u>\$ 35,716,192</u>	<u>\$ 597,425</u>
Per Capita Net City Direct Debt (1).....			\$41.38
Percent of Net Direct Debt to Total SEV (2).....			0.22%

<u>Overlapping Debt (3)</u>	<u>Gross</u>	<u>City Share As Percent of Gross</u>	<u>Net</u>
Sault Ste. Marie Public Schools	\$ 12,120,000	60.24%	\$ 7,301,088
Chippewa County	<u>6,310,000</u>	30.96	<u>1,953,576</u>
Totals.....	<u>\$ 18,430,000</u>		<u>\$ 9,254,664</u>
Per Capita Net Overlapping Debt (1).....			\$639.00
Percent of Net Overlapping Debt to Total SEV (2)			3.33%
Per Capita Net Direct and Overlapping Debt (1).....			\$680.38
Percent of Net Direct and Overlapping Debt to Total SEV (2)			3.55%

(1) Based on the City's 2000 Census population of 14,483

(2) Based on \$277,579,800 that is the City's Total SEV for the fiscal year ending June 30, 2005. Includes the SEV of property granted tax abatement under Act 198. See "Property Valuations" and "Tax Abatement" herein.

(3) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of the City are liable in addition to debt issued by the City.

Source: Municipal Advisory Council of Michigan and the City of Sault Ste. Marie

**City of Sault Ste. Marie
General Pension System
Five-Year History**

<u>Valuation Date</u> <u>December 31</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Funded</u> <u>Ratio</u>
1998	\$12,839,051	\$13,781,949	107.34%
1999	13,610,188	15,514,516	113.99
2000	15,878,641	16,694,480	105.14
2001	15,814,445	17,481,855	110.54
2002	17,447,662	17,503,766	100.32

Source: City of Sault Ste. Marie

**City of Sault Ste. Marie
Police and Fire Pension System
Five-Year History
(000's)**

<u>Valuation Date</u> <u>June 30</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Funded</u> <u>Ratio</u>
1999	\$15,059,099	\$11,812,714	78.44%
2000	15,986,238	12,106,796	75.73
2001	16,519,263	12,323,362	74.60
2002	17,439,131	12,198,649	69.96
2003	19,043,533 (1)	11,810,254	62.02

(1) After changes in actuarial assumptions.

Source: City of Sault Ste. Marie

LABOR CONTRACTS

Approximately 78.52% of the City's permanent employees are represented by labor organizations. The following table illustrates the various labor organizations that represent City employees, the number of members in each and the expiration date of the present contract.

	<u>Membership</u>	Current <u>Expiration Date</u>
United Steelworkers of America-Public Works	49	June 30, 2004*
United Steelworkers of America-Clerical	10	June 30, 2006
United Steelworkers of America-Fire Personnel	16	June 30, 2004*
United Steelworkers of America-Fire Command	2	June 30, 2003*
Michigan Fraternal Order of Police Labor Council-Patrol Unit.....	20	June 30, 2005
Michigan Fraternal Order of Police Labor Council-Patrol Unit.....	5	June 30, 2005
Michigan Fraternal Order of Police Labor Council-Police Sergeant.....	4	June 30, 2006
Non-Union Employees	29	n/a
Total Permanent City Employees	<u>135</u>	

*In process of negotiation.

Source: City of Sault Ste. Marie

Profile of Major Employers

The table located below reflects the diversity of the ten largest employers in the City by the estimated number of employees and the products manufactured or services provided.

<u>Company</u>	<u>Principal Product or Service</u>	Approximate Number <u>of Employees</u>
SSM Tribe of Chippewa Indians	Various enterprises, including casino	2,251
War Memorial Hospital	Health Care.....	625
Sault Area Public Schools	Education.....	330
Lake Superior State University	University	340
Wal-Mart	Department Store.....	220
Key Plastics Inc.	Plastics Injection Molding.....	136
City of Sault Ste. Marie	Local Government.....	132
U.S. Army Corps of Engineers.....	Federal Government.....	107
Precision Edge.....	Surgical Steel Instruments	127
K-Mart, Inc.....	Department Store.....	75

Source: City of Sault Ste. Marie

Employment

Reflected below are the unemployment statistics for the City and the State for the calendar years 1999 through 2004.

City of Sault Ste. Marie:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004 (2)</u>
Employed.....	8,475	8,575	8,400	8,125	8,225	8,275
Unemployed.....	<u>625</u>	<u>600</u>	<u>675</u>	<u>625</u>	<u>725</u>	<u>700</u>
Labor Force.....	<u>9,100</u>	<u>9,175</u>	<u>9,075</u>	<u>8,750</u>	<u>8,950</u>	<u>8,975</u>
Unemployed as Percent of the Labor Force (1)	7.0%	6.6%	7.4%	7.2%	8.0%	7.8%

(1) Totals and percentages may differ due to rounding by the Office of Labor Market Information – Michigan Department of Labor and Economic Growth.

(2) Average through August 2004.

Source: Office of Labor Market Information – Michigan Department of Labor and Economic Growth

State of Michigan:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004 (2)</u>
Employed.....	4,928,000	4,987,000	4,886,000	4,691,000	4,674,000	4,708,000
Unemployed.....	<u>193,000</u>	<u>183,000</u>	<u>271,000</u>	<u>310,000</u>	<u>368,000</u>	<u>350,000</u>
Labor Force.....	<u>5,121,000</u>	<u>5,170,000</u>	<u>5,157,000</u>	<u>5,001,000</u>	<u>5,042,000</u>	<u>5,057,000</u>
Unemployed as Percent of Labor Force (1)	3.8%	3.5%	5.3%	6.2%	7.3%	6.9%

(1) Totals and percentages may differ due to rounding by the Office of Labor Market Information – Michigan Department of Labor and Economic Growth.

(2) Average through August 2004.

Source: Office of Labor Market Information – Michigan Department of Labor and Economic Growth



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

November 19, 2004

City Commission
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

Through our role in performing financial statement services, we have become familiar with your systems, operations and management team. As we work with our clients, we strive to provide direction and constructive feedback to help facilitate their success. The better we get to know you and your objectives, the more we can offer in terms of proactive advice.

In planning and performing our audit of the financial statements of the *City of Sault Ste. Marie* (the "City") for the year ended June 30, 2004, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

The memorandum that accompanies this letter summarizes comments related to internal controls and financial reporting responsibilities of the City. This letter does not affect our report dated November 19, 2004 on the financial statements of the City.

We have already discussed these comments with the City Manager and Finance Director, and we would be pleased to discuss them in further detail at your convenience.

Best wishes for a successful 2004-2005.

CITY OF SAULT STE. MARIE

COMMENTS AND RECOMMENDATIONS

JUNE 30, 2004

Prior Period Adjustments

Subsequent to the issuance of the June 30, 2003 audited financial statement, the City noted certain assets including cash and construction in process which had been capitalized in the Water and Sewer Enterprise Fund were mainly infrastructure additions which should have been recorded in the CSO Phase D Capital Project Fund and the 2001 DWRF/SRF Capital Project Fund rather than the Water and Sewer Enterprise Fund. During the current fiscal year, City finance personnel reduced the net assets of the Water and Sewer Enterprise Fund and increased the fund balance of the CSO Phase D and 2001 DWRF/SRF Capital Projects Fund by approximately \$3,642,000 to correct this error.

In addition, during current period audit procedures, we noted the following errors affecting beginning fund balance/net assets:

1. Special assessment revenue was not recorded in the government-wide financial statements. Recording the special assessment revenue resulted in a prior period increase in fund balance of approximately \$2,090,700 in the governmental activities and \$200,794 in the Water and Sewer Enterprise Fund.
2. Certain revenue received in prior years in the Other Special Revenues Fund were improperly classified on the financial statements as accrued liabilities. As a result, the fund balance in the Other Special Revenue Funds increased by approximately \$314,400.
3. The June 30, 2003 audited financial statements of the Economic Development Corporation did not report rent receivable resulting from the rental of space in the incubator building. Correcting this error caused an increase in fund balance of the Economic Development Corporation at June 30, 2003 of approximately \$10,550.

The predecessor auditor approval was obtained and the City has reflected the corrections in the June 30, 2004 financial statements.

Housing Commission

Per the State of Michigan, Department of Treasury, certain component units, based on the relationship with the City, should automatically be included in the financial statements. Currently, the Sault Ste. Marie Housing Commission component unit is not being reflected in the City's financial statements. We recommend that the City implement the recommendations of the State of Michigan, Department of Treasury, and include the Sault Ste. Marie Housing Commission in the financial statements of the City. Including the financial information of the Sault Ste. Marie Housing Commission will not change any management activity of the Housing Commission.

Employment Eligibility Verification Form I-9

We noted during our testing of controls over payroll transactions of the City, that certain employees, generally long-standing employees, have not been required to complete Form I-9, Employment Eligibility Verification. Completion of this form is required by the Internal Revenue Service. We recommend the City's payroll personnel review the files and determine which employees have not completed the form. Those employees identified should be provided Form I-9's for completion. The completed Form I-9's should be included in every employees personnel file.

Accounting for Securities Investments in Seal Operations Fund and Cemetery Perpetual Care Fund

The Seal Operations Fund holds two bond securities as investments. One of these bonds was purchased at a discount and one was purchased at a premium. Governmental Accounting Standards Board Statement 31 (GASB 31) requires these stock securities be carried at fair value. To do so, the bond issued at a premium should be recorded at the amortized value, and the bond issued at a discount should be recorded at its accreted value. The change to the balances resulting from this correction would be approximately \$5,000.

The Cemetery Perpetual Care Fund holds stock investments which have been carried in the books of the City at cost. GASB 31 requires these stock securities be carried at fair value. Fair value of the securities may be determined by multiplying the number of shares held by the currently traded price. To do so, management must determine the current fair value of the stocks from the Wall Street Journal or from the City's investment advisors. The fair value computed would be compared to the subsequent investment balance and adjustments would be made accordingly. As of June 30, 2004, recording the stock investments at fair value would increase the asset and fund balance of the Cemetery Perpetual Care Fund by approximately \$20,000.

Michigan Finance Qualifying Statement

Beginning January 1, 2004, all governmental units subject to the Revised Municipal Finance Act (PA 34 of 2001) must submit their qualifying statement electronically using the Department of Treasury's website. The City must establish a password to submit the qualifying statement on-line. To establish a password, the Finance Director must contact the Local Audit and Finance Division of the Department of Treasury (517) 373-0660.

Electronically Filing The Financial Statements

Beginning with the fiscal year ended June 30, 2004, the City may submit their financial statements to the State of Michigan electronically. To do so, the financial statements must be created electronically in an Adobe Acrobat file. This file may also be forwarded to bond counsel for preparation of the SEC continuing disclosures. We would be happy to provide an electronic version of the financial statements for your use.

Economic Development Corporation – Timely Billing of Building Rental

The Economic Development Corporation (EDC) rents space in the Incubator Building to third parties under month-to-month rental agreements. Signed agreements are obtained. Customers are billed for the rental amounts agreed upon periodically. During our auditing procedures applied to the July 1, 2003 through June 30, 2004 rental revenue, we noted that rental income is not consistently billed on a timely basis. We recommend the EDC develop a procedure requiring in-advance billings to lessees which are due and payable by the first of each month.

We further noted during our audit procedures related to rent receivables, that certain balances are considerably past due. Per discussions with management, it was determined that two customers had past due balances totaling approximately \$20,000. The client has established a reserve for uncollectible accounts of approximately \$7,000 in relation to the past due balances. Collections were received intermittently during fiscal 2004 on these balances. We recommend that specific collection efforts should continue on these two accounts.

Economic Development Corporation/TIFA III – Accounting System

The Economic Development Corporation (EDC) and TIFA III are accounted for using Quicken software. Although this package does work, it is designed to account for personal financial information. Quickbooks, which is also owned by the EDC is a software package designed for business activities. This software would better capture the nature of the transactions of the EDC and would provide better reports for managements' use. We recommend that the EDC's general operations and Incubator rentals as well as the TIFA III Fund transactions be accounted for using the Quickbooks software.

Bayliss Library Branch Cash Accounts

During the performance of the audit procedures related to the Bayliss Public Library, we noted that bank accounts being used for branch operations at the remote locations are not recorded in the records of Bayliss Public Library. There are six bank accounts at the five branch locations with balances totaling approximately \$13,000 which have not historically been recorded in the Bayliss Library records. Per discussion with management and review of the bank statements related to these accounts, it was noted that three of the five bank accounts were opened using the social security number of the person opening the account. Further, there is some confusion regarding the purpose and ownership of these accounts.

These bank accounts are generally used to deposit donations from patrons, small grants obtained by the branches and other miscellaneous revenues. In addition, small payments for purchase of books and periodicals purchase of supplies used for library programs, telephone and internet charges and other miscellaneous items. The lack of identification of the fiscal responsibility for these accounts could result in inaccurate accounting for the transactions and a risk of misappropriation of assets.

We recommend that ownership of the accounts be determined. If these cash accounts are not the fiscal responsibility of the Library, the cash should remain with the various branches to be used as they see fit. Further, if the Library has no fiscal responsibility for the accounts, the City's Federal Identification Number should not be used. Bayliss Public Library should document in their branch operating agreements that they are assuming no responsibility for these ancillary bank accounts.

If the Bayliss Library component unit of the City of Sault Ste. Marie is determined fiscally responsible for the cash in these accounts, the accounts opened under personal social security numbers should be closed and reopened using the City's Federal Identification Numbers. The branch personnel would then be responsible to Bayliss Library staff to provide a monthly accounting of the transactions processed in these accounts and a reconciled bank statement for review and approval.

Conclusion

It has been a pleasure to provide audit services to the *City of Sault Ste. Marie*. Management was prepared for the audit, providing us with all supporting documents requested on a timely basis. The City's finance department is friendly, conscientious and very helpful.

We appreciate your business! Thank you.